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Homeownership and Affordable Housing

The Opportunities

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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January 1991

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Foreword

When I assumed stewardship of the Department of Housing and Urban Development (HUD), President Bush and I agreed that our overarching goal for HUD would be to help recapture the American dream for those low- and moderate-income families who all too often have been left behind. A large part of that dream is homeownership. To help achieve this goal, the Administration announced its HOPE (Homeownership and Opportunity for People Everywhere) initiative. Central to HOPE is the idea that low-income people can become property owners, property managers, producers and job holders if only the barriers blocking the exercise of their innate talents and abilities are removed.

The opportunity for homeownership is one of the greatest incentives that can be given to an individual or family for becoming self-sufficient. Homeownership helps to instill self-worth, pride and stability in one's life. People who own property take better care of it. They invest in it. They become more concerned with the behavior of those around them. They show heightened interest in property taxes, crime and drugs in their neighborhoods and the level and quality of government services. They may even vote more regularly and become more engaged in the democratic process. The very act of turning declining housing communities into resident-managed and -owned housing often radically changes social and economic behavior and contributes to producing viable, economically sound neighborhoods.

Homeownership, however, is only one part of the solution for poverty. To win a war against poverty, the incentives at work in our inner cities must reinforce and reward productive human and social behavior. Going to school and staying in school, starting a family and providing for that family, taking a job and applying oneself on the job must become more rewarding in community status and income than welfare or the underground economy. To accomplish this radical change in incentives and create new paths to prosperity and self-sufficiency will require sweeping policy changes. These include changing the tax system to reward work and saving, reforming the welfare system to lower the effective tax rates facing low-income people taking their first job, and passing Federal Enterprise Zone legislation to create seed capital for a whole new generation of small-business entrepreneurs. Distressed communities that have been redlined for stagnation and despair should be greenlined for economic growth, opportunity and jobs.

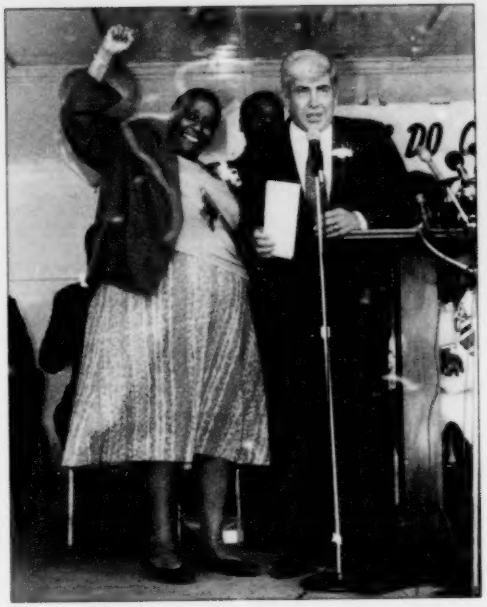
Some cynics say that low-income people can't become homeowners, property managers and entrepreneurs. I know they are wrong because I've seen dynamic and positive change around the country. In dozens of neighborhoods, some depicted in this book, empowered people have produced decent and safe housing in crime- and drug-free neighborhoods full of jobs and educational opportunity. This renaissance often begins when people discover the ability, talent and potential within themselves and take greater responsibility for their own lives and actions.

This book was developed because the residents and sponsors have inspired us by their example. Their faith, sheer determination and personal aspirations are what homeownership is all about. While this transformation cannot be duplicated through a book, showcasing successful efforts may help other low-income communities and individuals gain the knowledge and confidence that a better future lies within their grasp.

With President Bush's leadership and under my stewardship, HUD has put forth a far-reaching agenda to dramatically broaden homeownership and upward mobility opportunities for low-income people. Our strategy includes approximately $2.8 billion over two years through the HOPE initiatives, basic reform in the Federal Housing Administration's insurance programs and revitalized HUD programs such as Turnkey III and other homeownership mechanisms. Using public and private resources in an all-out effort to expand homeownership for low- and moderate-income people, this Administration is committed to an audacious goal—to create over one million first-time and lower income homeowners by 1992. By working with residents, public agencies and community groups, I am convinced that this goal is possible. Together, we can win the war on poverty and make the dream of homeownership a reality.

Jack Kemp

Jack Kemp
Secretary of Housing
and Urban Development



As HUD Secretary Jack Kemp handed Kimi Gray, president of the Kenilworth-Parkside Resident Management Corporation, the key of ownership to 132 newly renovated units, he emphasized his desire to replicate the spirit and success of this homeownership program throughout the Nation.

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Introduction

Working to recapture the American dream for all people, President Bush and Secretary Kemp have made the expansion of homeownership opportunities for lower income families one of the Administration's most important goals. On November 28, 1990, President Bush signed the National Affordable Housing Act that includes HOPE (Homeownership and Opportunity for People Everywhere), an incentive-oriented initiative targeted to four major priorities:

- Expanding homeownership and affordable housing opportunities.
- Empowering lower income families to achieve self-sufficiency.
- Creating jobs and economic opportunities.
- Helping to end the tragedy of homelessness.

In part, the HOPE initiatives are based on successful experiences and programs of the past; some are discussed in this book. The case studies presented in this book demonstrate that homeownership can become a reality for people of modest incomes. These case studies disprove those who say that homeownership is only for higher income people and illustrate that anyone who receives the necessary education and assistance can learn and apply critical skills of management and maintenance.

The basic motivations for homeownership—pride, security and a sense of control—are as important for low-income people as for moderate- and high-income families. In short, homeownership is not only part of the American dream, but a realizable goal that has worked well in dozens of communities across America.

The growing emphasis on homeownership and self-sufficiency is supported by several recent developments in public policy:

- Rising interest in reforming the Nation's welfare and tax systems to reduce dependency and increase incentives for working, saving and investing.
- Increased efforts to revitalize distressed neighborhoods and communities and expand job and economic opportunity by removing regulatory and tax barriers to economic growth and entrepreneurship.
- Development of public and private partnerships to increase the supply of affordable housing for lower income families.

Reforming Welfare and Reducing Dependency

New approaches to welfare assistance include reducing high effective tax rates for people who leave welfare to work, while at the same time offering an array of essential services to help make the transition smoother. Many State and local programs are coordinating services such as education, training, job placement, transportation, child care, health care and affordable housing to help lower income families achieve self-sufficiency. Affordable housing is especially important in this effort because housing contributes towards holding families together, providing stability and building a foundation from which to become self-sufficient.

Revitalizing Neighborhoods and Creating Jobs

There is a growing realization that economic development strategies for distressed neighborhoods can increase opportunities for employment, affordable housing and homeownership for lower income families. Such strategies can include removing or reducing State and local regulatory barriers to economic growth and affordable housing.

Creating an environment conducive to entrepreneurship is an essential part of community revitalization. Small business firms with 20 or fewer employees create approximately two-thirds of all net new private sector jobs and almost all jobs in the distressed Northeast. Small businesses have been the traditional avenue for waves of immigrants and poor people to achieve prosperity. Small businesses are often innovative, adaptive and likely to produce the sort of goods and services most in demand by neighborhood residents. In addition, small-business owners have a direct stake in their community and can strengthen the social fabric of the neighborhood.

The resources of all levels of government and the private sector can be united in a productive partnership to restore neighborhood vitality and economic buoyancy. Enterprise Zones are an entrepreneurial market-oriented approach to marshal and unleash government and private-sector resources for job creation and small-business development.

Expanding Homeownership and Affordable Housing

Homeownership results in pride, better maintained housing and a deeper interest in one's neighborhood—results that are clearly evident in inner-city neighborhoods where affordable homeownership programs are in operation. State and local governments have contributed to the process by implementing publicly financed loan and grant programs to rehabilitate homes and help low- and moderate-income families purchase these properties. Neighborhood groups, nonprofit organizations and for-profit companies have devised innovative homeownership initiatives that help revitalize and stabilize neighborhoods.

The following statutes have helped the Department of Housing and Urban Development (HUD) increase homeownership programs and initiatives:

- The Housing and Community Development Act of 1974 (the 1974 Act) gave Public Housing Agencies and Indian Housing Authorities the authority to sell public housing properties to residents and gave HUD the authority to continue paying the debt service on the properties (incorporated as Section 5(h) in the Housing Act of 1937, as amended).
- Section 810 of the 1974 Act authorized transfer without payment of federally owned, unrepaired, unoccupied, one-to-four-unit residential properties to States, units of local government or their designated public agencies for use in urban homesteading programs.
- The Housing and Urban-Rural Recovery Act of 1983 opened HUD's mortgage insurance programs to lower income home purchasers and exempted from various statutory restrictions the sale of public housing to residents for homeownership purposes.
- The Housing and Community Development Act of 1987 expanded the use of public housing for homeownership purposes. The Act allowed management corporations formed by public housing residents to purchase their housing developments from Public Housing Agencies and Indian Housing Authorities and resell the individual units to the residents (incorporated as Section 21 in the Housing Act of 1937, as amended).

In addition to increasing homeownership opportunities for lower income persons, HUD has expanded the accessibility of affordable housing to renter households. Between 1980 and 1990, the number of renter households assisted by HUD programs has increased from 2.9 million to 4.3 million.

Helping To Achieve Homeownership

Objectives. This book focuses on helping to recapture the American dream of homeownership for everyone. It is written to provide models that can help lower income residents realize the opportunity for management and ownership of their housing; to highlight successful models of homeownership to policymakers and the general public; and to encourage and inspire residents, nonprofits and State and local governments to create affordable homeownership programs. This book:

- Discusses the crucial components that make homeownership programs for lower income families successful.

- Informs prospective sponsors and residents of the support HUD offers for such programs.
- Presents successful homeownership case studies that communities and residents can adapt to their own situations.

Sponsoring Organizations. Organizations that can sponsor homeownership programs for lower income families include local and State government agencies, Public Housing Agencies, Indian Housing Authorities and nonprofit and for-profit organizations. Residents themselves, given training, can also sponsor homeownership through resident management corporations or housing cooperatives. Homeownership programs may be jointly sponsored by partnerships of these groups; such partnerships are encouraged.

HUD Programs. HUD administers a number of programs that offer homeownership opportunities for lower income families. They are structured so that sponsoring organizations can use a variety of resources to make homeownership affordable. This book includes information on the following HUD-sponsored programs:

- Public Housing Homeownership Program—Section 5(h).
- Resident Management Corporation Homeownership Program—Section 21.
- Turnkey III Homeownership Opportunity Program.
- Mutual Help Homeownership Opportunity Program.
- Urban Homesteading Program.
- HUD-Held/HUD-Owned Properties.
- Homeownership Using Community Development Block Grant Funds.
- Nehemiah Housing Opportunity Program.

Using This Book

The first section discusses **program components** that are crucial to the design and implementation of a homeownership program for lower income families.

The second section contains **case studies** and highlights of successful HUD-sponsored homeownership programs. The case studies illustrate various approaches to the program components discussed in the first section. Many local programs have shown resourcefulness in developing financing sources, forging partnerships for providing counseling and training, and working with city agencies and community-based organizations to accomplish their homeownership goals. While the programs depicted in the case studies were designed to meet specific requirements and local circumstances, the approaches used are adaptable to other programs. Contact persons are listed for each case study so that organizations and individuals can benefit from direct interaction with experienced sponsors.

Appendix I contains brief descriptions and contact persons for the **HUD programs used by the sites** in the case studies.

Appendix II provides information on **other HUD programs that support homeownership** for lower income families. Many of these programs offer individual loans for the construction, rehabilitation or purchase of units, while others assist in the development of affordable housing.

Major Components of a Homeownership Program

Implementing a homeownership program for lower income families requires care in program design and an understanding of relationships among key program components. This section discusses the following components and explains why they are important:

- Developing and managing a local homeownership program.
- Selecting properties to be sold.
- Selecting homebuyers.
- Preparing homebuyers for homeownership.
- Arranging financing for purchases.
- Restricting resales.
- Accommodating nonpurchasing residents.

Developing and Managing a Local Homeownership Program

Successful homeownership programs have sponsoring organizations with governing boards that demonstrate full commitment to the concept of homeownership, realistic goals, adequate resources (staff, funding and services) and skilled staff.

Sponsoring Organization. The officials of the sponsoring organization,* including the governing board, must be strongly committed to the idea of providing homeownership opportunities to lower income residents. The organization should be willing to provide sufficient resources to ensure that the program succeeds. If the resources are not available inhouse, the officials may be able to acquire them from other sources—local government agencies, financial institutions or other community organizations. Staff, essential to day-to-day operations, will need the support of the organization's officials to carry out its responsibilities successfully.

Program Development. One of the most important steps in designing the homeownership program is determining who the target population (homebuyers) will be. An evaluation of their characteristics will help determine the number, type, price and location of units that can be sold. Input from residents and community groups in the design phase is especially beneficial in developing a homeownership program that meets local needs.

Realistic goals must be established for the program and care must be taken not to exceed the capacity of the sponsoring organization.

Resources. The resources required will vary according to the size of the program and the type of properties being sold. Sales of single-family properties, involving only one unit and one family at a time, are relatively easy to accomplish. Multifamily sales, which require—among other things—the establishment of a cooperative or condominium, take longer but are well worth the effort for several reasons. Multifamily housing is affordable to a greater number of people than single-family housing, and the cohesiveness that develops among the homebuyers during the training period can form the basis for self-help activities of many kinds.

Staffing. The size and qualifications of the staff will depend on the size and complexity of the program and schedule for sales. Lead responsibility for a homeownership program, especially for a large-scale program, should be assigned to a person who has the time to manage the program properly. Other assigned staff, or contractors and consultants needed to supplement skills available inhouse, will need knowledge of real estate transactions and experience in dealing with homeownership issues.

Selecting Properties To Be Sold

Careful consideration must be given to the type (multifamily or single-family) and condition of the properties, as these factors affect the ability of the sponsoring organization to sell the units and the interest of potential purchasers to own them. The type of property will also influence the form of ownership that can be offered.

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*Organizations that can sponsor homeownership programs are listed in the Introduction on page 3, column one.

Questions concerning the selection of properties include: What are the goals of the local program? What are the sources of properties available? Who is the target population and what is its interest and capacity for buying the units?

Types of Properties. In selecting the types of properties for a homeownership program, two questions should be addressed: (1) what structure type(s) will be offered: detached single-family homes, duplexes, rowhouses, garden apartments, highrises; and (2) what the sources of the properties will be. Since any structure type is adaptable for homeownership, the real determinant is the type of housing the target population desires to purchase.

Sources of properties will vary depending on whether federally held, federally assisted or locally generated properties are used. Examples of federally held or assisted properties are public housing units, HUD-owned or HUD-held properties, Federal Housing Administration (FHA) foreclosed properties, Resolution Trust Corporation-owned properties and Farmers Home Administration-foreclosed properties. Locally generated properties include those owned by the State or city or developed by a nonprofit organization. If Federal properties are selected, Federal regulation will dictate the target population. However, the sponsoring organization will still need to determine an individual's interest and ability to buy a home.

Condition. Many Federal programs require that the properties be in sound physical condition at the time of transfer or that a plan be in place to bring them into sound physical condition. Lower income families assuming the costs associated with homeownership may not be able to afford the added cost of repairs or rehabilitation.

The need for and extent of repairs or rehabilitation may affect the price of the properties, as will the source of the funds for the work and whether the funds must be recaptured from sale proceeds. For example, programs that sell public housing properties can use Comprehensive Improvement Assistance Program (CIAP) funds to make needed repairs, and the cost need not be recovered. Other properties may have access to Community Development Block Grants (CDBG) from the city, county or State; HUD's Section 312 Rehabilitation Loans; or State and local programs. Repayment terms and conditions for these funds vary.

Forms of Ownership. The form of ownership is usually dictated by the structure type. There are three basic forms of ownership:

- Fee Simple. This is the most common, and therefore the easiest form for new owners to understand. The homebuyer is responsible for maintenance and upkeep of the land and buildings and may make any changes to the property that are within local codes and ordinances.
- Condominium. The owners finance and hold fee simple title to their individual units, receive a specific share of the indivisible parts of the building and land and pay a condominium fee for management and maintenance. Condominiums involve a democratic approach to homeownership through participation in the management by a board of directors composed of unit owners.
- Cooperative. The property is owned by a corporation, usually a nonprofit, and an individual who wishes to live there must purchase a share in the corporation. The shareholder pays a co-op fee that covers the expenses of managing and maintaining the development, including any outstanding mortgage on the property. As with the condominium, cooperatives involve the participation of shareholders in the management.

Single-family, scattered-site housing is usually sold fee simple, whereas multifamily properties use the condominium or cooperative forms of ownership. However, under certain circumstances—for example, where single-family properties are adjacent in a subdivision—a cooperative or condominium form of ownership may be used if there are common interests that could be pursued by the homebuyers.

With both the cooperative and condominium, the sponsoring organization must make a special effort to assure that the new homebuyer is fully knowledgeable and prepared to assume all responsibilities associated with these forms of ownership (see "Preparing Homebuyers for Homeownership," on next page).

Selecting Homebuyers

Developing realistic eligibility criteria and screening processes will help identify the target population and reduce the time needed to screen applicants. Eligibility criteria will also focus the marketing efforts and set both the level of expectation among the target population and the perception of the program in the community.

Eligibility Criteria. The most basic criterion for homeownership should be the homebuyer's income. Generally, HUD's homeownership programs require that participants have income at or below 80 percent of the area's median income. The cost of homeownership (mortgage, taxes, insurance, utilities and routine maintenance) should be a reasonable percentage of the family's income—between 30 and 40 percent. Additional criteria are usually left to the discretion of the sponsoring organization.

In addition to income, other criteria that have been found useful in selecting homebuyers are:

- Earned income as a portion of the family's total income.
- Good credit, rent payment and employment histories.
- Satisfactory housekeeping habits.
- Motivation and commitment to becoming a homeowner.

Eligibility criteria should be established in conjunction with two other components: sale prices and financial arrangements. For example, if a fixed price is set for all units, then the minimum income needed to purchase will automatically be set by the amount of income needed to support the mortgage and other homeownerships costs. If the price of the units varies according to the amount applicants can afford, then income requirements can be more flexible. Because underwriting criteria for loans vary, the proposed source of financing must be taken into account in setting eligibility criteria.

Marketing the Homeownership Program. Marketing activities can serve as the primary means of publicizing the homeownership program and attracting potential buyers. In addition, these activities offer an opportunity for making contacts that can lead to local partnerships in developing the program.

The most significant factor in developing the program's marketing strategy is the identification of the target population: Who are the potential purchasers? Where are they living? What are their interests in type, size, location and cost of housing? What are the best methods for reaching them? Other factors to consider are the properties themselves, their location, condition, price and surrounding neighborhood. The methods selected to market the homeownership program will depend on these factors and the development of the most effective means to reach and inform potential homebuyers. Initial contact may be made through media advertisements, personal mailings or door-to-door calls. The program can be explained through one-on-one contacts or group sessions.

Intensive marketing, which can require many resources, may be needed to inform lower income families about the homeownership program and how they can qualify. Current residents can play a role in this marketing effort. However, if proper attention is given to the questions noted above, staff time and other resources can be reduced.

Preparing Homebuyers for Homeownership

First-time buyers will need counseling and training on their rights and responsibilities as homeowners. Much of this counseling and training can be accomplished through group presentations, but some buyers may require extensive one-on-one assistance. The counseling and training can be provided by the sponsoring organization's staff or through the services of outside organizations.

Counseling and Training. Several types of counseling and training are beneficial to prospective and actual homebuyers:

- Prospective homebuyers. When considering a purchase, prospective homebuyers need sufficient information to make informed decisions. Counseling should cover all the responsibilities they will take on, as well as the basic terms and costs of purchasing. For prospective homebuyers who occupy properties that are to be sold, counseling should include their options if they decide not to purchase (see "Accommodating Nonpurchasing Residents," page 12).
- Purchasers. All purchasers should be given basic counseling and training that include, but are not limited to: financial management, credit problem resolution, savings practices, loan application procedures, energy conservation and consumer education. Training in housekeeping and routine home maintenance will help them cope with the demands of maintaining and preserving their properties. It may also be beneficial to provide postpurchase counseling for those with overdue bills who face possible default and foreclosure.
- Form of ownership. Counseling and training should be provided to explain the homeowner's responsibilities under the form of ownership that is being used: fee simple, condominium or cooperative. The counseling and training are straightforward for fee-simple ownership. They are more time consuming and complicated for condominiums and cooperatives. Areas that should be covered are: basic concepts of these forms of ownership; roles of the board of directors and individual owners; development of legal documents (such as articles of incorporation, bylaws, subscription agreements, occupancy agreements, rules and regulations); financing; budgeting; recordkeeping; negotiation of management contracts; development of maintenance and replacement policies; and membership and community relations.

Boards of directors of condominiums and cooperatives should receive more indepth counseling and training. The sponsoring organization or the cooperative or condominium can make provisions for continuing education and training of board members after title passes. Availability of continuing training can help preclude mismanagement of the properties and prevent defaults or foreclosures.

Choice of Providers. Counseling and training activities require more technical and professional expertise than many sponsoring organizations will have. However, expert assistance may be obtained from outside sources to handle some or all of the activities. Consultants, in particular, may be needed for developing condominiums and cooperatives.

Many sources—public (national, State, local) and private for-profit and nonprofit organizations—provide these services. Some require reimbursement; others may provide the services at no cost. Examples include consumer credit counseling organizations; local legal service agencies; local utility companies; banks and lending institutions; State and local universities, colleges and technical institutes; chapters of the National Urban League; the Cooperative Housing Foundation; the National Association of Housing Cooperatives; Housing Opportunities, Inc.; and HUD-approved counseling agencies.

Arranging Financing for Purchases

One of the most crucial aspects of a homeownership program for lower income homebuyers is the arrangement for financing the purchases. In developing a plan for financing, the following questions should be addressed:

- What will be the sale price* of the property?
- Will a downpayment be required?
- Who will pay the closing costs?
- Who will be responsible for arranging the financing?
- What are the sources of financing?

Sale Price. The major issue of homeownership programs for lower income families is affordability. To address this, the approach used in setting the sale price must take into account both the income levels of the target population and what, if any, program costs must be recovered from the sale proceeds. Thus the sale prices must be worked out in concert with the overall goal of the program and selection of the target population.

Affordability should be the basic determining factor in setting the sale price. Three approaches are offered as examples of how to set an affordable sale price:

- Estimate the amount of income needed to cover the cost of maintaining the unit: utilities, taxes, insurance and routine maintenance. Then, using a reasonable percentage of the homebuyer's monthly income—say 30 to 40 percent—determine how much would be left to cover a mortgage. The amount of mortgage this would support determines the price of the unit. Because it is based on family income, this approach should provide an affordable home to a family whose situation (income, health, etc.) remains stable.
- Set the sale price at a percentage of the market or appraised value of the property. Different percentages could be used, based on the incomes of the purchasing families. For example, for families with incomes less than $12,000, the percentage could be less than for those with incomes above $12,000. Because family income is one of the determining factors, this approach adjusts the price to an affordable level for various income groups. It works best in areas with moderate housing costs.
- Base the sale price on the cost of the rehabilitation required to bring the property into compliance with local codes. Because this method does not consider family income, the units being offered will only be affordable to lower income families if they do not require substantial rehabilitation.

The choice of a pricing policy is particularly important when properties are sold to the current occupants. Unless affordability is considered, they may not be able to purchase their homes. This could create a problem for the sponsoring organization by increasing the number of nonpurchasers. The policy may also create a problem for the program if it displaces a large number of families.

Downpayments and Closing Costs. The sponsoring organization must decide whether downpayments will be required and who will cover the closing costs associated with the property transfer. These are important questions because lower income families may not have substantial savings upon which to draw. Depending upon the resources available to the program and the type of financing used, several options are available to cover these costs.

Downpayments can vary with the type of financing. Many lenders require buyers to have cash equity in the property before they will provide a mortgage. In some instances, lenders may forgo this requirement if the property has been discounted (sold below market value) so that the mortgage amount is less then the full value of the property. Many States or localities have programs that provide funds for downpayments for first-time homebuyers through a grant or low-interest loan.

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* "Sale price," as used here, is the price the purchasers will pay for the property. Since in many instances the sale price will probably be set below the actual market or appraised value of the property, the recorded or actual price of the property may be quite different (and should be, so it does not distort the market for the other properties in the neighborhood). A discussion of how to rectify the differences between the two prices can be found in "Restricting Resales," page 11.

Closing costs vary because of State and local taxes and transfer costs. Ways to help buyers cover the closing costs include State or local programs that offer assistance, local governments that waive portions of taxes, payment from the proceeds of the sales or inclusion of the costs in the mortgage.

Responsibility for Arranging Financing. The success of a homeownership program depends on access to financing. Lower income families often have difficulty obtaining mortgage financing on their own. In addition, they may be unfamiliar with the terminologies, requirements and procedures of mortgage financing. Financing is difficult enough for single-family and condominium purchases, but can be especially complicated for cooperatives.

The sponsoring organization should start contacting lenders early in the planning stages. Contacts should be made with private lenders, State or local government agencies and civic-minded corporations and foundations to provide information on the homeownership program and its goals. Commitments to finance the purchases should be obtained from one or more of these sources. Prospective purchasers then can be directed to receptive lending institutions.

In the sale of a cooperative, the responsibility for arranging financing should belong to the sponsoring organization, working with the co-op's board of directors. Financing can take one of two forms:

- The cooperative obtains the financing for the purchase of the development and the repayment costs are prorated to the share owners.
- Share purchasers obtain individual mortgages for their shares with the net proceeds going to the cooperative. The cooperative uses the funds to cover the purchase price of the property, leaving the co-op debt free.

Sources of Financing. Mortgage financing for lower income homebuyers can come from many sources, including several programs or organizations that offer assistance for first-time homebuyers.

- Private lending institutions. These sources are the most common. Many have policies that support reinvestment in their own communities and usually are receptive to community service programs. Many communities have first-time homebuyer programs that are sponsored by a consortium of local banks and can be an excellent source of financing.
- State and local programs. These sources are often supported through public funds created through tax revenues or special bonds. They usually have reduced interest rates and underwriting requirements that have been established for lower income first-time homebuyer programs. Most State housing finance agencies have loan or grant programs that help develop properties for homeownership purposes.
- The National Cooperative Bank. A leader in cooperative financing, the Cooperative Bank is an excellent source when a single mortgage for an entire multifamily property is needed.
- The 1986 Tax Reform Act's Low-Income Housing Tax Credit. Under certain circumstances, syndication under this provision of the 1986 Tax Reform Act is an excellent source of financing for the creation of low-income housing. However, while this form of financing creates low-income housing, it does not provide immediate homeownership—the property must remain as low-income rental for 15 years to earn tax credits. This form of financing

requires long-term agreements between the low-income residents and investor(s) for transfer of the property to the residents at a future date.

- National and local foundations and philanthropic organizations. These can be valuable resources for financial support. They can provide the funds for mortgage financing and cover the cost of other program activities, which in turn could help reduce the price of the housing.
- Sponsoring organization. A final option for the mortgage financing is the sponsoring organization. This approach requires a long-term commitment to the program, since the sales proceeds would be paid throughout the term of the mortgage instead of in a lump sum. The sponsoring organization would need inhouse staff to service the mortgages or would contract for these services.

Restricting Resales

Restrictions on resales are sometimes used to encourage more stable communities and increase a resident's commitment to homeownership. Restrictions may be placed on resale of the property to achieve the goal of retaining a stock of affordable housing for lower income families. Other restrictions require purchasers to increase equity through home improvements or other owner-created equity before receiving increased value. Despite these restrictions, however, it is important to give homebuyers an equity stake in their property, providing lower income people, as much as possible, the same rights and privileges of homeownership as any other family. When residents have the opportunity to realize a return on their investment in their homes, they will have a greater incentive to maintain and improve their homes and community. In considering restrictions on homeownership, the ultimate goal should be kept clearly in mind: offering low-income people pride of ownership and the benefit of investing in a valuable asset in their community.

Windfall Profit Restrictions. When property is sold below market or appraised value, instant equity is acquired by the new homeowner, amounting to the difference between the price paid and the market value. One of the simplest means to restrict windfall profits, should the new owner decide to sell immediately, is for the sponsoring organization to place a second mortgage on the property for the difference between what is paid and the market or appraised value.

A second mortgage can be structured in several ways: it may or may not require payments, it may or may not be interest bearing and it may be for any length of time. The second mortgage can also be structured so that it is forgiven after a specified period of occupancy—5, 10, 15 years—with the homeowner realizing the full value of the property if it is sold after the stipulated period of occupancy. This approach not only precludes windfall profits, it also provides an incentive to the homebuyer to remain in and maintain the property.

Retention of Use for Lower Income Families. To maintain the availability of decent, affordable housing for lower income families, restrictions may be placed on the resale of the property. The most common approach for limiting the use of a property, especially with fee simple ownership, is to include restrictions in the deed.

One such deed restriction could give the sponsoring organization the right of first refusal on resale of the property. Repurchases would then be sold to other lower income families. Another restriction could limit who may purchase the property; for example, the property may only be sold back to the sponsoring organization. A similar restriction could place limits on the income of future purchasers, such as households with incomes at or below 80 percent of the area median income. This arrangement would have the effect of restricting the sale price of the unit to one that is affordable to a family with that level of income.

Limited equity cooperatives usually ensure that the property will be available to lower income families in the future. As the term "limited equity" implies, the articles of incorporation and the bylaws of the cooperative establish the price and future growth in value of a share, thus guaranteeing its continued affordability.

Accommodating Nonpurchasing Residents

Many HUD-sponsored homeownership programs involve the sale of occupied properties. Under these programs, residents who choose not to purchase cannot be involuntarily relocated. Thus properties selected under these programs must be those in which a significant majority of residents have expressed either a desire to purchase or a willingness to relocate voluntarily. This stipulation may not have a significant effect on the sale of single-family dwellings, but it can affect the sale of multifamily properties. When occupied properties are selected, the sponsoring organization must establish a policy and develop options for families who do not want to, or cannot afford to, purchase. State and local laws should be reviewed for their impact on the options. In addition, counseling must be given to nonpurchasing residents on their rights and options.

The most significant option for residents who do not wish to buy their unit is alternative housing. The best incentive to encourage families to move is to offer them equal or better housing elsewhere. For example, if the unit is in public housing, the occupants can be offered another public housing unit. They may also be given Section 8 certificates or housing vouchers to rent housing in the private market (assuming the family meets the eligibility requirements, the housing authority has certificates or vouchers available and suitable units are readily available in the private market). Assistance also may be given to help with moving expenses, utility deposits or the like. However, if the household wants to remain in the unit, arrangements must be made for continued occupancy.

Other Program Features

Several features can make a homeownership program more viable. While these may not be essential to the success of the program, two examples are cited that further the objective of affordable homeownership.

Maintenance After Sale. The sponsoring organization may want to make provisions for major repairs after the unit is sold, since lower income buyers may not be able to undertake such costly repairs. It is not suggested, however, that this assistance should cover routine maintenance activities that every new homeowner should undertake.

While several approaches can be used for this type of assistance, two are offered for consideration:

- Warranty on major mechanical and structural components. The sponsoring organization could provide a warranty on the major mechanical and structural components of the unit, especially when the unit is not rehabilitated prior to sale. If the property is rehabilitated and the mechanical and structural components are replaced, the normal service/workmanship warranties should be transferred to the buyer.
- Loan fund for major repairs. The sponsoring organization might establish a loan fund from which the new owners could draw if major repairs or replacements are needed. These could be either no- or low-interest loans. Funds for the loans could come from the sale proceeds or an escrow account paid into periodically by the new owners and managed by the sponsoring organization. The loan program could be set up for a specified period of time (for example, 2 to 5 years), after which the owners' incomes should have increased sufficiently to afford the repairs.

Mortgage Default Assistance. Consideration could be given to providing short-term assistance to households that, through no fault of their own, have trouble meeting their mortgage payments. This assistance could be limited to such causes as illness, temporary unemployment or other emergency situations and to a specified period of time, such as 3 to 6 months. The assistance might take the form of financial aid, deferred payments (if the lender agrees), additional budget and financial counseling, referral to a default counseling agency and referral to public assistance agencies or private service organizations. As one possibility, this assistance could be paid for with a portion of the sale proceeds.

Case Studies

Public Housing Homeownership—Section 5(h)

Baltimore, Maryland
Louisville, Kentucky
Nashville, Tennessee
Newport News, Virginia
Fort Myers, Florida

Resident Management Corporation Homeownership Program—Section 21

Washington, D.C.

Turnkey III Homeownership Opportunity Program

Winston-Salem, North Carolina

Mutual Help Homeownership Opportunity Program

Pojoaque, New Mexico
Tahlequah, Oklahoma

Urban Homesteading Program

Portland, Oregon
Milwaukee, Wisconsin

HUD-Held/HUD-Owned Properties

Boston, Massachusetts (Warren Gardens)
Boston, Massachusetts (Methunion Manor)

Homeownership Using Community Development Block Grant Funds

Boston, Massachusetts
Cleveland, Ohio
San Francisco, California

Nehemiah Housing Opportunity Program

Baltimore, Maryland

Public Housing Homeownership

Section 5(h)

Creating a New Life for Residents and Properties

Public Housing Agencies and Indian Housing Authorities, working with resident organizations or individual residents, may use local homeownership opportunity programs to sell public housing properties to the residents.

The sale of public housing properties—single-family units and multifamily developments—to public housing residents has led to revitalized residential neighborhoods in many communities.

By taking control of their homes, the residents improve not only their housing, but their lives as well.

In 1985, Baltimore decided to participate in HUD's Public Housing Homeownership Demonstration (PHHD) because it was a good opportunity to target homeownership to public housing residents who were typically underserved by the city's other homeownership programs.

The Department of Housing and Community Development (DHCD) selected properties from its inventory of scattered-site, single-family houses, which had been acquired and rehabilitated in the 1960s at an average cost of $26,000. The homes were two- and three-story rowhouses, with an average of four bedrooms, located in seven neighborhoods. They were indistinguishable from other homes in the neighborhoods, making them particularly suitable for the program.

Only modest repairs were needed to bring the houses up to standard prior to sale. Using funds from its operating budget, DHCD installed new storm doors and screens and painted the units. Some upgrading of electrical systems was also necessary. The average cost of presale repairs was $2,600 per unit.

Thirty public housing properties were offered for sale; by the end of 1989, 28 had been sold to the existing residents.

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Baltimore, Maryland

Residents Buy Their Homes

Baltimore's civic leaders have long realized the value of their city's more than 200 distinct neighborhoods. During the inauguration of the "Hometown Baltimore" campaign, designed to promote the livability of Baltimore's neighborhoods, Mayor Kurt Schmoke characterized the city's neighborhoods as ". . . the bedrock on which we are building Baltimore's future."

The neighborhoods have contributed significantly to the city's social and economic health; as a result, Baltimore has a tradition of neighborhood-based community activities such as "Hometown Baltimore." Because it is considered a critical factor in creating and maintaining stable and viable neighborhoods, homeownership has always been a part of that tradition.

Baltimore Used the Demonstration To Expand Homeownership

Since its first homeownership assistance office was established in 1972, Baltimore has developed many effective programs for homebuyers. When PHHD was announced in 1984, the city already had a wealth of experience from which to draw. Baltimore has an effective network of nonprofit, neighborhood-based assistance centers, and DHCD had already sold several of its inventory of 2,600 single-family, scattered-site units.

DHCD, which was part of a larger umbrella agency called the Neighborhood Progress Administration (NPA), provided properties for the homeownership demonstration. NPA's charter includes merging the human and physical sides of decent, affordable housing with employment and training.

NPA established a task force to set policies and procedures for PHHD and to act as the Homebuyer Review Committee, which approved residents for participation in the demonstration. The task force included the DHCD commissioner and two staff members, a representative of the mayor's office and a member of the resident advisory board. The Office of Homeownership Services (OHS), also part of NPA, administered the day-to-day operations of the demonstration.

OHS spent considerable time identifying and working with potential homeowners before they were recommended to the Homebuyer Review Committee—a very labor-intensive effort. Staff assigned to PHHD were: a full-time counselor, a part-time cost estimator and clerical staff. Two maintenance workers from the housing authority were also assigned to repair the units prior to sale.

NPA received a $46,000 technical assistance grant from HUD as part of the demonstration, and used the bulk of the money for the OHS counselor; the balance defrayed the cost of fee appraisals and preparation of legal documents.

Selection Process Was Well Defined

Identifying potential homeowners was a straightforward process. The selection criteria included:

- Household income of at least $10,000 per year.
- Evidence of steady employment (minimum of 3 years).
- A downpayment of at least $500.
- Acceptable rental history with the housing authority.
- Willingness and ability to accept the financial responsibilities of homeownership.
- Willingness and ability to maintain the unit after the sale.

DHCD identified all families with incomes of $10,000 or more living in scattered-site public housing. These individuals received an informational flyer describing PHHD. A total of 216 families expressed an interest in the program; 79 actually completed the application and of those, 28 qualified for financing and became homeowners.

According to Carol Curtis, the OHS counselor, "We had a wonderful response. Unfortunately, most people did not qualify." Most of the 51 applicants who did not qualify failed to do so because of financial circumstances: either their incomes were insufficient to meet the mortgage or their credit histories were unacceptable. According to Ms. Curtis, "The earliest applicants were the easiest to qualify because they knew they wanted to buy even before PHHD was announced and were actually preparing themselves for homeownership."

Successful applicants had an average income of $19,422, which exceeded the city's median income by about $1,700. The average household size was four people, the average age of the head of the household was about 45. Almost all residents had lived in the property for at least 10 years. Most of the households were made up of married couples with children, but many successful buyers were female heads of households.

Financing Combined State Mortgage Bonds and Private Lending

Financing the sales through DHCD was never considered; it was symbolically important to sever the link between the housing authority and its former residents. DHCD Commissioner John McCauley explained, "If the program was going to succeed, it had to stand on its own as far as we were concerned. The new homeowners had to accept the risks as well as the benefits." New homeowners had to be prepared to accept the responsibilities of homeownership on their own, without the housing authority's safety net. Because of this, the underwriting criteria were stringent enough to ensure the viability of potential homebuyers and attract outside financing sources.

The sale price for each property was based on its appraised value. A silent second mortgage was held by DHCD to bridge the difference between the downpayment and first mortgage amount and the property's appraised value. The price paid by the homebuyer (downpayment plus first mortgage) was based on affordability (no more than 30 percent of the household's gross income for principal, interest, taxes, utilities and insurance). The average sale price was approximately $23,400, with an average first mortgage amount of $17,600. Each homebuyer's $500 downpayment was supplemented at settlement by DHCD, which paid an average $1,250 in settlement costs per purchase.

DHCD first attempted to solicit conventional financing but quickly found that financial institutions were unwilling to underwrite the loans because of their relatively small sizes and high servicing costs. Consequently, two sources of financing were tailored to the financial characteristics of the buyers. Twenty-five loans were financed through the State's

Something for the Future

Doris Kutcherman has always striven to improve life for herself and her family. When conditions declined at the public housing complex where she lived, Mrs. Kutcherman immediately began to examine other options. She decided to move into one of the single-family units available from the housing authority's new Used House Program, which allowed her to rent a renovated single-family home located in a better neighborhood. Even though the two-bedroom rowhouse was smaller than what she wanted, she took it because she saw an opportunity for her family.

Mrs. Kutcherman was interested in buying her rental unit from the authority even before the Public Housing Homeownership Demonstration was implemented, but a process for purchasing it did not exist at that time. When the demonstration was announced, she had her sights set on another goal: a new car. Everything she could save from her job as a bookkeeper at the Massachusetts Mutual Insurance Company was going into her new car fund. The day she got the letter from the authority informing her she was qualified to purchase her house, she had to choose between her new car and the house.

It has been more than 2 years since she decided on the house, and although Mrs. Kutcherman still does not have that new car, she is happy with her choice.

Mrs. Kutcherman and her husband, Richard, are proud to have something they can call their own. They take the responsibilities of homeownership seriously. They feel they have a real incentive to save their money and plan for the future now that they have something to show for it.

Richard and Doris Kutcherman bought their home in Baltimore 2 years ago. It is typical of the two- and three-story rowhouses in the neighborhood.

Mortgage Revenue Bond Program, and three loans were financed through Maryland National Bank with Federal Housing Administration (FHA) insurance.

According to Tom Jaudon, the director of OHS, "It took over a year to arrange the State financing package because we had to go to the bond market to get the funds. We asked the State to secure funds with a 4- to 5-percent interest rate because we knew higher interest rates would not work for our buyers."

The Revenue Bond Program served three income groups: over $20,000 with 25-year mortgage at 7.75 percent; $18,000 to $20,000 with 30-year mortgage at 5 percent; and below $18,000 with 30-year mortgage at 4 percent. Since this is an interest-subsidy program, as a family's income increases during the life of the mortgage, the interest rate is increased up to the maximum of 7.75 percent.

Three families whose assets exceeded the State's maximum income limits for participation in the Revenue Bond Program obtained conventional first-mortgage financing. Maryland National Bank provided the financing as part of its responsibility under the Community Reinvestment Act. Those loans were FHA-insured at a rate of 9 percent for 30 years.

The terms of the second mortgage held by DHCD included the accrual of 1-percent simple interest per year with a 10-year "forgiveness" provision. This provision prevents the possibility of windfall profits by requiring repayment of the second mortgage in declining percentages the longer the property is owned. In addition, the second mortgage effectively ensures the availability of the properties for low-income buyers by providing DHCD with the right of first refusal if the homeowner chooses to sell within the first 10 years.

Net proceeds from sales have exceeded $420,000; part of the proceeds were used to pay closing and warranty costs. Although DHCD has no current plans for using the remaining money to continue the homeownership demonstration, the funds will be used for other ongoing, low-income housing activities.

Homeownership and Financial Counseling Was Critical to Success

Group and individual counseling was critical to PHHD because of the use of outside financing. Poor credit histories, which had to be cleared up or justified before financing was approved, were a

To be eligible to purchase a home in the Public Housing Homeownership Demonstration, a family needed an annual income of at least $10,000, evidence of steady employment, a downpayment of at least $500 and an acceptable rental history with the housing authority.

major obstacle for the majority of homebuyers. All participants were required to attend a credit counseling seminar funded by the United Way and presented by Consumer Credit Counseling Services of Maryland. The seminar stressed the responsible use of credit and the importance of personal financial budgeting.

The staff of OHS, a HUD-certified homeownership counseling agency, provided individual counseling. This counseling involved explaining the application process, reviewing the appraisal and repair schedules, explaining the first and second mortgages, reviewing financing terms and credit histories and resolving credit problems. The staff also helped complete loan applications and attended loan closings with the homebuyers. The staff continues to hold periodic group meetings with the homebuyers to review any problems they may have in adjusting to their new roles of homeowners.

One unique feature of Baltimore's PHHD is the DHCD-provided homeowner warranty, which protects buyers against all major system failures for 2 years after the sale. So far, only one roof and two hot water heaters have been replaced under the warranty program. Warranty repairs were paid for from the net proceeds of the property sales.

Lessons Were Learned From Homeownership Demonstration

The development of a flexible homeownership option expanded DHCD's ability to serve the needs of its residents.

The staff involved in the Baltimore PHHD has the following suggestions for others who are considering a homeownership program:

- Carefully analyze and clearly understand the dynamics of your city's assisted housing population. Reducing the rental inventory through homeownership may not be feasible or may not be suited to your jurisdiction's situation.
- Plan your program carefully. Be fully aware of what is involved, especially the time, staff and resources needed for successful implementation.
- Do not underestimate the importance of effective homeownership counseling in preparing residents for making the transition from renter to owner.
- Select properties that are in good condition before they are sold. Do not let the program be a "bailout" for your housing authority. Properties sold in good repair ensure that the residents' transition to homeowners will not be burdened by high maintenance or repair expenses.
- Find a workable method for financing homeownership for low-income buyers with marginal credit histories, place a reasonable value on the property and structure the mortgage accordingly. Do not let the program be a "giveaway." To effectively empower the residents, the homeownership program should encourage individual responsibility. It should be designed to clearly break the link between the housing authority and the homeowner once the property is sold.

OHS has now been reorganized as the Homeownership Institute under DHCD. The Institute has continued the work started through the homeownership demonstration by developing several programs to aid first-time low- and moderate-income homebuyers, including homeownership counseling, homebuyer education seminars, mortgage financing, property sales and marketing.

According to Tom Jaudon, "PHHD was an important part of our evolving homeownership and neighborhood improvement experience."

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For a brief description of the Public Housing Homeownership Demonstration requirements, see page 135 in Appendix I.

The Housing Authority of Louisville has proven that public housing residents can become successful homeowners by making it possible for families with incomes of $8,000 or more to purchase condominiums in a completely rehabilitated former public housing development. By keeping homeownership costs equal to or less than former rent payments, the Louisville program enables public housing residents with stable records as employees and residents to own homes in a conveniently located downtown neighborhood of equally committed citizens.

The housing authority became interested in homeownership in 1983 as it considered the future of College Court, a 5.2-acre complex of small, clustered garden apartments built in 1938. On analysis, it appeared that the deteriorated efficiency and one-bedroom units of College Court could meet low-income housing needs in Louisville if renovated into larger family units. With a $3,184,000 development budget, Louisville converted the original 126 units into 100 condominiums for family living and financed the purchases with 25-year, low-interest mortgage loans. By the end of 1988, public housing residents had purchased 92 of these units through a nonprofit subsidiary, Louisville Housing Services, created to generate funds for the development of affordable public housing.

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Louisville, Kentucky

College Court Becomes a Condominium

As executive director since 1984, Andrea Duncan embodies the constructive spirit of the Housing Authority of Louisville (HAL). She sees HAL as an efficient property manager responsive to contemporary needs. She believes, however, that "to the extent that we can, our long-term goal is to be a catalyst," identifying and reinforcing positive influences on residents' lives and providing them with the opportunity to help themselves. Under her leadership, HAL seeks not only to improve housing conditions but to elevate the quality of life for its residents.

The housing authority meets its responsibility today by managing 6,085 federally subsidized lower income public housing units, including 12 multifamily housing communities, several scattered-site projects and 540 units of Moderate Rehabilitation. In total, HAL provides housing for approximately 15,000 individuals every year and also administers child care facilities and recreational and counseling services.

HAL has a staff of 270 full-time and 30 part-time employees, except during the summer months when several hundred students are hired to assist with an increased maintenance workload. The authority's waiting list averages around 1,500 applicants. Annual funding includes HUD operating subsidies, Comprehensive Improvement Assistance Program (CIAP) dollars and Community Development Block Grant (CDBG) funds from the city's Department of Housing and Urban Development. In 1989, HAL's $17.3 million budget consisted of $9.4 million in operating subsidies, $7.6 million in CIAP dollars and $317,000 in CDBG funds.

Ms. Duncan believes in bringing as many community resources as possible to bear on the problems HAL residents face. As she says, "Our children are our future," and HAL will continue to look for new ways to help its residents improve their families' lives. Community resources used to fund projects include the United Way, the school system, churches and nonprofits.

Louisville Responds to a Crisis

In 1937, HAL began its history of responding to housing needs when Federal and State enabling legislation created what was then called the Municipal Housing Commission. At that time, still struggling against Great Depression odds, over one-third of Louisville's citizens lived in housing lacking running water, electricity or indoor toilets. The great flood of that year precipitated Government response. One of the worst natural disasters of the 1930s, the flood hit the exposed floodplain of Louisville hard, putting downtown's Market Street under 14 feet of water and damaging 1,300 dwellings occupied by low-income families. As a result, the Federal Public Works Administration, created by President Franklin D. Roosevelt, joined with the Commonwealth of Kentucky to form the Municipal Housing Commission and to build Louisville's first units of public housing—College Court and LaSalle Place—in 1938.

By 1984, after providing substantial housing service to low-income residents for nearly a half-century, the 126-unit College Court complex presented HAL with a problem. Despite its convenient location near downtown Louisville, College Court was only half-occupied. Not only did the complex need substantial rehabilitation, but the makeup of the HAL waiting list indicated that College Court's unit mix did not meet the demand for two or more bedrooms, which the majority of prospective residents needed. College Court contained 81 efficiencies and one-bedroom units, but only 45 units with two and three bedrooms.

In addition to deterioration and the underoccupancy caused by the original design, College Court exhibited other signs of the times. As a result of the 1981 amendments to HUD's public housing program, rents increased to 30 percent of resident income, income definitions changed and deductions for job-related expenses disappeared. These new restrictions prompted an exodus of employed public housing residents to privately owned housing, often in substandard condition. As family-earned income increased, families moved out to live in private houses that could be rented for less than 30 percent of their income.

HAL Prepares for Sale of College Court

HAL took action on two fronts: in 1983, it exercised foresight by creating a nonprofit subsidiary—

Louisville Housing Services Corporation (LHS)—to raise funds to create affordable housing. This was a prudent step. If HAL had undertaken fundraising activities on its own, it would have had to recycle funds back into its operating budget. As a creation and close affiliate of the housing authority, with a five-member board composed primarily of HAL commissioners and staff, LHS was in position to carry out the redesign and reconstruction of College Court and other low-income properties.

Next, HAL considered the future of College Court. Transferred to HAL in 1953, the 5.2-acre garden apartment complex just south of Louisville's central business district required decisive action. Housing authority staff, including Andrea Duncan who was then director of special programs, urged the transformation of College Court's efficiency and one-bedroom units into larger apartments that would better answer waiting-list needs. And since the housing authority was looking for a new way to help its residents move up and out of public housing, the staff urged considering conversion of the project to homeownership as well.

To check the feasibility of these recommendations, in September 1984, HAL hired two consultants to evaluate the practicality of converting College Court to low-income homeownership. Consultants David Fleischaker and Frank A. Clay, Jr., carried out the preliminary study and developed recommendations on the financial and ownership structure of the project. They determined that conversion to larger units was essential and that a thorough renovation was needed, since no major improvements had been made during the past 47 years; the project's kitchens, bathrooms and major systems were original. They also concluded that, after renovation to 100 units, College Court's new space configuration would make it a good candidate for conversion to homeownership.

The consultants recommended condominium ownership for several reasons. First, as a traditional model, individual ownership would be the easiest for prospective purchasers to understand. Second, it was felt that individual ownership would encourage an acceptance of individual responsibility for the property after rehabilitation. Finally, and perhaps most important, HAL's goal of providing its

Happy Lottery Winners

William and Vera Thomas and their two teenage daughters live in a two-bedroom townhouse they purchased in College Court. Both natives of Louisville, he works in maintenance for a private firm, she is a Unit Secretary at Methodist Hospital.

The Thomases were allowed to purchase a home at College Court because they were income-eligible, former College Court residents and had lived not only at College Court, but also in one of the housing authority's scattered-site properties.

When they were public housing residents their income had increased, resulting in higher rent payments that made it too expensive to stay in public housing. They chose to move to a privately owned house that rented for $200 a month less than they had been paying for their public housing unit.

Although Mr. and Mrs. Thomas were immediately interested in purchasing a unit at College Court, according to Mr. Thomas, "A lot of people tried to talk us out of it. They thought it would look just like the projects." Undaunted, they pursued their application and watched with interest as the property was rehabilitated.

At the lottery held in May of 1987, their name was the 86th called. As a result, they were unable to select their first choice, a three-bedroom unit, but their second choice has become a warm, comfortable home for their family. The Thomases enjoy living at College Court, find the location convenient and the mortgage and utility payments affordable. Mrs. Thomas describes herself as having been "really excited and appreciative" when she and her husband officially became property owners. She says she has "more pride because you feel this is yours."

All in all, they are thrilled to have a house of their own. As Mrs. Thomas says, "I came from a family that was on assistance, so I never thought [homeownership] would happen."

The Thomas family never thought they could achieve homeownership, but now find their home quite affordable.

residents with a way out of the system suggested that purchasers should have the opportunity to profit from any future increase in value. As stated in a proposal for the conversion of College Court, "In today's economy the 'working poor' have financial challenges to be met as severe as [those of] most welfare recipients, and such an option will provide a logical and much needed incentive."

College Court Turns Around

After an unexpected 6-month delay occasioned by the need to remove a significant amount of asbestos, work began on all units in 1986. (HAL's reserve account paid for the asbestos removal.) The budget for the renovation totaled just over $3 million, or $31,000 per unit, of which the housing authority's CIAP budget provided $2 million, the city provided $800,000 in CDBG funds and the Commonwealth of Kentucky $200,000 in State energy funds. The city's board of aldermen also provided a $3,000 grant to cover the cost of sealing the buildings' external brick walls, and Operation Brightside, a local beautification project, contributed flower bulbs and cobblestones.

The scope of the rehabilitation included not only renovation of the interior of each unit, but also the replacement of all major systems and all plumbing and sewer lines out to the street. As a result, the property had to be vacated before the work began; relocation costs were paid for with CIAP funds. Each resident who chose not to buy a unit was given three alternatives: (1) relocate to a vacant HAL rental public housing unit in another development, (2) receive a Section 8 certificate for private housing or (3) move back into College Court after renovation as a renter with a Section 8 certificate. To make the third option feasible, LHS agreed to retain ownership of as many units as would be required to accommodate those residents who wished to remain in the project as renters with Section 8 subsidies. Residents who chose to remain renters would be charged a rent equal to 30 percent of their income. If these renters ever vacated, LHS would be able to sell those units to other HAL residents.

Lottery Used To Select New Homeowners

To simplify the project's legal and financial issues, HAL charged LHS with the conversion of College Court. LHS began marketing the project in late 1986, targeting the approximately 300 HAL residents then paying over $200 a month in rent. The marketing program included a letter campaign to reach all eligible residents, public meetings at each of the housing authority's proper-

College Court is a cluster of 100 garden apartment condominiums on 5.2 acres just south of the central business district. Built in 1938, the brick buildings surrounding cobblestone courtyards evoke a sense of community where homeowners are proud of their accomplishments. Local support at all levels helped make College Court a success.

ties and notices in both the local newspaper and the regular resident newspaper. In addition, LHS invited participation in the project by including messages on the residents' rent statements for several months.

The response was overwhelming. Approximately 800 inquiries came in by telephone and on signup sheets posted at each HAL property, eventually resulting in 300 applications. Because of the authority's commitment to its existing residents, LHS restricted purchase of College Court units to HAL residents and income-eligible former College Court residents.

LHS began reviewing applications in November 1986 and continued the process for approximately 5 months. To complete an application, each applicant paid $3 for a credit report and agreed to allow verification of employment and rent payment history. In addition, applicants were advised that, when approved as purchasers, they would pay closing costs of $500. LHS evaluated applications by four ranked criteria: (1) total family income, (2) stability of income, (3) rent history and (4) credit history. The reviewers considered credit history last since some applicants had none. In addition, the reviewers evaluated each application for conformance to certain basic underwriting ratios. To purchase, projected monthly housing expenses could not exceed 28 percent of gross income, and total projected monthly debt, including housing expenses, could not exceed 36 percent of gross income. If, during the course of reviewing the application, it was discovered that a HAL resident had been underreporting income for rent purposes, the application was eliminated from further consideration.

Those applicants who passed the evaluation stage earned priority to purchase a unit via a lottery broken into two pools: one containing the 22 College Court residents who had declared an interest in purchasing and the other containing employed HAL residents and income-eligible former College Court residents. As the names were drawn, participants received a number denoting the order in which they could choose their unit. Names were drawn first for the College Court residents. The May 1987 lottery served as the centerpiece of HAL's 50th anniversary celebration; a major event featuring participation by city officials, the authority's board of commissioners and former residents of College Court.

The potential purchasers reacted excitedly as numbers were drawn and names announced, especially during the early moments. Names pulled early were assured of the unit of their choice. Shirley Dickerson, a single parent and a HAL resident for almost 10 years before applying for College Court, remembers her joy at being selected: "I was so excited a friend made a frame and I put my number in it." Because she had a low number, she was able to select her first choice, a three-bedroom unit. Today, her framed lottery number hangs on her office wall.

Once selected by the lottery, LHS required the selected purchasers to attend two mandatory counseling sessions and 8 hours of training on personal budgeting, home maintenance and the roles, rules and responsibilities of condominium ownership. Upon completion of the counseling and training and making a deposit of $100 toward the closing costs, the selected purchasers could sign the purchase contract.

Sale Price and Financing Made Units Affordable

After rehabilitation, College Court contained 6 one-bedroom, 75 two-bedroom and 19 three-bedroom condominiums. The discounted prices varied by the size of unit, ranging from a low of $8,700 to a high of $13,700. The monthly condo fee (averaging $200) was determined by the annual condominium budget divided by the square footage of the development, then multiplied by the size of the unit. To ensure that College Court would be maintained in excellent condition, the monthly condominium fee included a reserve for major repairs.

To make the units affordable to HAL residents and provide "instant equity," LHS originally discounted the price $9,000 from market value. If a purchaser decided, however, to sell within 6 years of the initial purchase to someone other than LHS, a percentage of the discount would be recaptured through a silent second mortgage. In the first and second years the full $9,000 would be repaid, in the third and fourth years $6,000 would be repaid and in the fifth and sixth years $3,000 would be repaid.

Today, the owners of College Court have a median household income of $12,500 and an average family size of 2.7 persons. Current prices for units owned by LHS range from $11,000 to $22,000. LHS learned after the initial sale that the price spread between units was too small to discourage purchasers from buying the biggest units in the property. As a result, the three-bedroom units sold quickly, and some larger families were unable to buy units.

Rather than require the original purchasers to obtain their own financing, LHS provided financing at a below-market interest rate of 5 percent and a term of 25 years with the proviso that if an owner chose to move out and rent the unit, the mortgage interest rate would rise to 12 percent. Today, as units turn over, subsequent purchasers who are HAL residents are eligible for a 25-year mortgage at 7 percent from LHS, but other purchasers must secure their own financing in the private marketplace.

Mortgage repayments are used to subsidize 36 additional homeowner units recently developed by LHS. These funds will continue to be used to develop additional affordable homeownership properties for very low income families with priority given to public housing residents. Also, the primary funding sources for LHS administrative activities—in addition to proceeds from loan servicing, pest control services and fee accounting for small housing authorities—include the principal and interest payments from mortgages on the College Court condominiums and the 36 additional low-income homeowner units developed in 1989.

Delinquencies among College Court purchasers have averaged 5 percent. LHS aggressively pursues late payments with delinquency letters that demand repayment of the full arrearage at 30 and 60 days. A private management company provides counseling to delinquent households after 60 days. At 90 days, the case is forwarded to an attorney for legal action. To date, two of the original purchasers, both of whom had lost their jobs, have deeded their units back to LHS in lieu of foreclosure. According to Diane Foster, HAL's current Director of Special Programs who also handles mortgage servicing for LHS, most owners will come up with the lump sum arrearage by asking family and friends for help rather than risk losing their units.

As required by the College Court condominium rules, a private management firm oversees upkeep of the property. The owners are responsible for routine interior maintenance, but the private management company's maintenance staff will do routine tasks free the first time if the homeowner watches to learn the necessary procedure. The management company publishes *College Court Currents*, a regular newsletter that provides up-to-date information on the activities of the condominium association. *College Court Currents* also fosters a sense of connection and community among residents.

College Court Builds Community Support

The conversion of College Court is a significant milestone in improving the lives of formerly dependent public housing residents. Shirley Dickerson, one of the new homeowners, says, "I feel like I'm part of a family. . . . It's a great place to live. I can walk to work since I'm right downtown. And I'm paying less than I paid in rent." College Court homeowners appear motivated to keep their property in pristine condition. A visitor walking through the pleasant, cobblestone courtyard feels a strong sense of identity; College Court is an attractive, positive influence on the surrounding neighborhood.

HAL staff believes the success of College Court is no accident. Those who worked on putting the project together feel strongly that the incentive of individual ownership was the key motivation for College Court purchasers. By becoming homeowners, the initial buyers obtained a chance to build equity and make an investment in their futures without unreasonable sacrifice. In fact, many families now pay less each month as homeowners than they did as public housing residents.

Local support at all levels, from the mayor and the board of aldermen to the city's CDBG staff, helped make College Court a community success. Not the least of this support came from HAL residents. By keeping potential buyers informed of every detail of the development's progress, HAL created and sustained a committed constituency for the successful future of the College Court enterprise. When a series of lengthy delays occurred between marketing and completion of the rehabilitation, HAL kept the faith by mailing candid periodic updates to potential purchasers to maintain their interest in the property.

Due to the success of College Courts, the housing authority is interested in converting other public housing to homeownership. According to Andrea Duncan, HAL staff is continuing to undertake new initiatives to improve the physical and social well-being of public housing residents.

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For a brief description of the Section 5(h) Homeownership Program requirements, see page 135 in Appendix I.

Late in 1985, Nashville's housing agency received word that HUD was soliciting applications for a homeownership demonstration program using public housing properties. The housing agency submitted a proposal to sell residents a total of 85 units in several separate developments:

- *Forty-eight units in a multifamily garden apartment development.*
- *Twenty-eight units in 14 side-by-side duplexes.*
- *Nine units in three side-by-side triplexes.*

Originally, the housing agency planned to establish two cooperatives, a condominium and fee simple ownership of some of the duplexes. However, as the residents trained and worked together, they requested that a single limited-equity, scattered-site cooperative be developed. In 1988, New Edition Community Apartments, Inc., was created.

The properties were transferred to the resident cooperative in June 1989. Of the 85 units, 66 were purchased by their occupants and 10 were marketed to residents of other public housing developments. Eight units are being rented by elderly occupants who did not wish to purchase or to move; Section 8 housing vouchers were provided to these households. One unit became the cooperative's office.

Nashville, Tennessee

Public Housing Becomes a Co-op

Known nationwide as the home of country music, Nashville is also the State capital and the regional center of music publishing, banking and finance. In addition, two major automobile companies, Nissan and General Motors, recently built plants nearby to access the area's large labor supply. Not surprisingly, manufacturing and services are the first and second largest employment sectors.

Employment in Davidson County, where Nashville is located, grew by 81.2 percent from 1970 to 1985; and in 1989, median income for a family of four was $32,800. The county has a significant unmet need for affordable housing; a 1988 housing market analysis estimated that approximately 44 percent of households were renters, and that 28,000 low- and moderate-income households (or 13.2 percent of Nashville families) had to pay more than 30 percent of their income for housing. The study also identified more than 22,000 substandard units.

The goals of the Metropolitan Development and Housing Agency (MDHA) are to provide decent rental housing and affordable homeownership opportunities for low-income families, to eliminate slums and blight and to develop Nashville's economy. With a staff of 400 (approximately 300 staff members attend to housing matters), MDHA manages 8,830 units, including 2,500 units of Section 8 existing housing. It also provides both direct social services and referral services to over 9,000 residents a year. Services include counseling, nutrition and homemaker services, day care for preschool children, a "Before and After School" program for older children, health and clinic services, recreational programs, tutoring and basic education classes. A volunteer program involves Nashville citizens in providing transportation, maintenance and entertainment services for public housing residents. As Gerald Nicely, executive director of MDHA, says, it is "very unusual to have a [public housing] organization with such broad functions."

In 1988, MDHA's annual public housing budget was approximately $20 million (including $12 million in HUD subsidies), and the agency spent $46 million for its housing and community development programs. Funds came from the Comprehensive Improvement Assistance Program (CIAP), Section 8 housing assistance payments, Community Development Block Grants (CDBG), Emergency Shelter programs, the Rental Rehabilitation Program, tax increment financing and a Tennessee State affordable housing program.

Several Scattered-Site Properties Were Selected

As part of the application process for the Public Housing Homeownership Demonstration (PHHD), MDHA identified several properties containing a total of 85 units that would be appropriate for conversion to homeownership. MDHA selection criteria included the need for no more than moderate rehabilitation, proximity to stores and services and location in a racially mixed neighborhood.

The properties were:

- Edgefield Annex: 48 apartment units in reasonable condition but requiring new heating systems, roofs and some minor repairs. Residents who planned to stay in the property after rehabilitation requested interior improvements, including carpeting and central air-conditioning. Carpeting and other interior improvements were made, but air-conditioning could not be included in the rehabilitation because of the cost. The rehabilitation totaled $498,000, or approximately $10,000 per unit.
- Triplexes: Nine units in three buildings located in south Nashville. The buildings were constructed in 1986 under a scattered-site development grant. They required minor repairs.
- Duplexes: 28 units constructed in two sites, 8 in south Nashville and 20 in east Nashville. The co-op members were the first occupants of the buildings in east Nashville.

MDHA covered the total rehabilitation cost of approximately $617,000 with CDBG funds. The funds were to be repaid from the proceeds of the sale.

One Cooperative Emerges

MDHA's original plan proposed to convert Edgefield Annex and one of the other properties into two separate cooperatives. The triplexes were to become condominiums. One group of duplexes would be conveyed fee simple as individual single-family residences.

However, as the process of educating the residents about PHHD got underway, MDHA discovered that the residents preferred creating one cooperative to encompass all of the units. Several factors appeared to influence their decision, including the financial flexibility that a cooperative would allow, and the belief that as a larger group the organizational and management responsibilities—intimidating responsibilities for new homeowners—would be easier to handle.

A vote taken in December 1988 resulted in the formation of the New Edition Community Apartments, Inc. (NECA), which officially became a nonprofit corporation the following April.

As purchasers in the cooperative, the residents receive a membership certificate in the corporation, while NECA holds the actual title to the property. The members have the right to occupy their apartments and vote to elect the cooperative's board of directors.

Ewana Harris Becomes a Cooperative Homeowner

Ewana Harris and her daughter had lived in Edgefield Annex for 6 years when the property became part of the New Edition Community Apartments. A native of Nashville, Ms. Harris graduated from Hume-Fogg Comprehensive High School in 1977, and studied business administration at Tennessee State University from 1977 to 1980. Since 1985, she has worked as an Office Manager at the James A. Cayce Homes, a public housing development located in the same neighborhood.

At the time of the proposed conversion of Edgefield Annex to homeownership, Ms. Harris was considering buying a home elsewhere, but couldn't find anything she could afford. "Initially I was hesitant, but after seeing the renovation and looking at what was available in the private sector, I decided it was for me." In fact, she found it was less expensive to become a homeowner through the creation of the New Edition Community Apartments than to rent elsewhere.

Ms. Harris was comfortable with the concept of a cooperative and realized that there was a major benefit in shifting a large part of the financial risk from the individual to the cooperative. As she says, "When you're a single parent, you have to be concerned about that."

As a cooperative member, Ms. Harris participated in the required training program. She learned about cooperatives in detail, including the rules and requirements of cooperative membership. She also received training in the basic routine maintenance tasks members must complete on their own units. The training helped the cooperative get off to a good start. "People are more neighborly, are proud of the property and are concerned about the upkeep," she says.

The rehabilitation work was done well and included new plumbing, windows, a new heating system, a renovated kitchen and carpeting. Ms. Harris would have liked to have central air-conditioning installed, but understood the cooperative's cost constraints. She says "they did everything they could to troubleshoot" and ensure that all of the major items were fixed.

Ms. Harris says that her monthly expenses today total approximately the same as before conversion. In fact, she likes paying her own utility bills because she can control the costs. For Ms. Harris, cooperative homeownership has given her "a greater sense of security and a more positive outlook, and has improved my credit. It's been the best thing—buying a home."

Ewana Harris discusses her new homeowner status with John DeGraphenreed of the housing agency.

Scoring System Devised for Selecting Homeowners

MDHA targeted public housing residents and families on the waiting list as potential cooperative members and sought to attract independent, assertive residents who might be ready for the responsibilities of ownership. Marketing activities relied on print media and word of mouth. Advertisements were placed in the newspaper distributed to public housing residents. A cooperative newsletter that chronicled the progress of the demonstration program was begun and mailed to a wide audience. Public meetings were held, and residents began to spread the word to family and friends.

Initially, homeowner applicants were screened by an MDHA task force, but once the cooperative was incorporated, an interim cooperative board was formed and took over the application process. Completion of the application was followed by a home visit and an interview.

Applicants were evaluated in five categories: income, employment stability, rent payment history, credit history and budgeting skills. A rating and ranking system assigned a value from 0 to 10 in each category. An applicant received a zero if he or she had no history in a category, such as nonworking senior citizens on fixed incomes or residents with no credit history. The category values were totaled and divided by the number of categories with values greater than 0 (e.g., a score of 10 in 4 categories yielded a total score of 40, and divided by 4 the final score was 10).

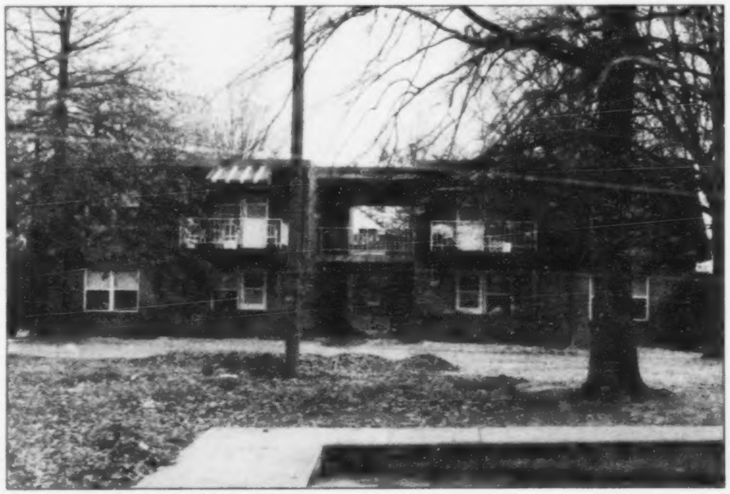
Although the ranking system is still used by NECA today, it was not then, and is not now, the final determinant of an applicant's appropriateness for co-op membership. The home visit and interview carry great weight, since the willingness and motivation of the applicant to participate in the activities of NECA are crucial to the overall success of the co-op.

Training and Counseling Were Joint Endeavors

To help the cooperative's members and board understand their roles and responsibilities, a training series was prepared and delivered by the Cooperative Housing Foundation (CHF), the Nashville Urban League and MDHA. Funds for the training came from a HUD technical assistance grant of just under $50,000. The training fell into three areas: presale membership, interview training for board members involved in screening new members and postsale maintenance training.

The presale membership training was required as a condition of membership. It consisted of six courses and was provided by CHF. Topics included the organization and operation of a coopera-

New Edition Community Apartments, Inc., is a limited-equity, scattered-site cooperative of 85 units in three building styles: multifamily garden apartments (pictured here), duplexes and triplexes. Despite a lack of experience with low-income housing cooperatives in the State of Tennessee, the housing agency staff and residents, working together, were able to create an affordable cooperative.



tive and the rights and responsibilities of membership. CHF also provided board and committee members with more indepth training on the same topics.

The Nashville Urban League delivered interview training to board members to prepare them for the evaluation and selection of new members. In addition, board members attended the National Association of Housing Cooperatives' annual and midyear conferences.

MDHA trained all new members in routine maintenance to enable NECA to reduce its maintenance expenditures and to encourage individual responsibility for maintenance.

The training and counseling activities contributed to the successful startup of the cooperative. Group sessions fostered cohesiveness as well as developed the members' interpersonal skills. Today, each new member receives 14 hours of membership training, which is provided by NECA board members who use professional training materials.

Costs and Fees Are Based on Income

By the time the properties were transferred from MDHA to NECA in early 1989, 66 homeowners had been selected. Their family incomes ranged from a low of $6,204 to a high of $27,385, and the average was $13,993. In addition, eight elderly households were given permission to rent their units from NECA, and six chose to do so.

After the rehabilitation of all the properties, the market value for the 85 units in NECA was appraised at $1.8 million. MDHA established NECA's $825,000 purchase price by assuming that each cooperative household would contribute 30 percent of its income toward monthly housing expenses.

Prices for individual units were established at varying levels based on the number of bedrooms. Originally, the monthly fee paid by each cooperative member was to be pegged to a percentage of income based on bedroom size: 28 percent for a one-bedroom unit, 30 percent for a two-bedroom, and 32 percent for a three-bedroom. However, because members' incomes varied so widely, prices for the same size units would have been significantly different. Therefore, MDHA decided that the fairest approach would be to establish a fixed monthly fee schedule.

Cooperative members who joined when the co-op was first formed pay $192 for a one-bedroom unit, $233 for a two-bedroom unit and $279 for a three-bedroom unit. Exceptions were made for elderly and disabled members who pay $150 for one bedroom and $155 for two bedrooms. New members pay slightly higher fees of $195 for a one-bedroom unit, $265 for a two-bedroom unit and $325 for a three-bedroom unit. Members are responsible for their own utility expenses.

Financing a Cooperative Was a New Venture

Despite the value of the property ($1.8 million) in relation to the proposed debt ($825,000), obtaining financing for NECA was not a simple process. Several local banks were approached, but none would support the purchase because it was structured as a cooperative, a form of ownership unfamiliar and uncomfortable to many of the lenders. This was only the second cooperative developed in Tennessee.

MDHA then worked out a combination of private and public financing, obtaining three mortgages:

(1) The National Cooperative Bank (NCB) in Washington, D.C., agreed to provide a first mortgage of $550,000 for 15 years. The interest rate, currently 11-5/8 percent, is based on 5-year Treasury notes plus 3 points and is adjustable every 5 years. Monthly principal and interest payments are based on a 30-year amortization schedule. The proceeds went to repay a majority of the CDBG funds spent on the rehabilitation.

(2) Since NCB was unwilling to finance the entire purchase price, MDHA placed a silent second mortgage of $250,000 on the property. This loan carries no interest and will be forgiven unless the cooperative sells the property within the first 15 years. This amount represents the difference between the first mortgage ($550,000) and the downpayment ($25,000) and the CDBG funds spent ($825,000).

(3) MDHA also holds a $1 million silent third mortgage—represent-

ing the balance of market value—that will be forgiven over 5 years (20 percent is forgiven each year) if NECA does not sell the property and it remains a low-income, limited-equity cooperative.

The issue of a downpayment by the cooperative was solved creatively. Residents were credited for doing their own routine maintenance and the unused maintenance money budgeted by MDHA was assigned to an "equity accrual" fund. At approximately $20 a month per unit, a downpayment of $25,000 was raised before closing.

Member Fees Are Low

New members must pay a $25 application fee, and make a one-time equity payment of $500 upon joining the cooperative. The co-op board may grant a no-interest loan for applicants who cannot make the $500 payment when they become members, but who can pay back the loan over 1 or more months. If a member leaves NECA within 2 years, the $500 equity payment is nonrefundable; after 2 years, it is refundable minus any repair costs. A member who departs after 2 years also receives a lump sum equal to the total amount paid towards mortgage principal, adjusted for inflation using the Consumer Price Index.

Co-op fee delinquencies average $800 per month and are handled efficiently by the cooperative. Co-op fees are due on the first of the month, and late charges accrue at a rate of 10 percent after 10 days. After 21 days a "Detainer Warrant" is filed, which results in a judgment in favor of the cooperative, and provides for a 10-day restitution period during which the member must make the payment or face eviction.

Co-op Restricted to Lower Income Ownership

According to John DeGraphenreed, the MDHA staff person who spent approximately 3 years putting the NECA project together, MDHA's agreement with the cooperative specifies that future members will have incomes at or below 80 percent of the area median income, and that preference will be given to public housing residents and Section 8 recipients. Should NECA fail to live up to these commitments during the 15-year term of the agreement, any mortgage debt not forgiven would have to be repaid.

The agreement also gives MDHA a nonvoting seat on the NECA board, the right to approve the selection of a management company for 2 years and the right to approve any expenditures in excess of 10 percent of the cooperative's reserve accounts for 5 years. MDHA also has the right of first refusal should NECA decide to sell the properties.

The Cooperative Takes Control

At NECA, six units remain occupied by elderly renters; they will be sold when the residents move out. Two cooperative members have defaulted on their monthly payments, and NECA is advertising for replacement members. Most potential applicants who call to inquire about purchasing a unit have no idea what a cooperative is, and require a detailed explanation. The recruitment of new members—an ongoing responsibility in a cooperative—requires active involvement of the NECA board.

Finding a willing, suitable new member is not always easy. "The most difficult part for them is having to pay a subscription [equity] fee," says Ellen White, the NECA site manager. Even if the co-op board is willing to loan the equity payment, some applicants are uncomfortable committing to the payment.

Although NECA issued a request for proposals for management services for the cooperative, no acceptable responses were received. As a result, MDHA entered into a contract to provide day-to-day management for at least the first year.

The financial health of the cooperative is excellent. Although the original scope of rehabilitation for Edgefield Annex had to be scaled down, NECA expects to have adequate funds in the near future in its reserve accounts to complete work on several items that could not be included in the original rehabilitation. In addition, the co-op will try to pay off the first mortgage on the property in 5 rather than 15 years—a truly ambitious task.

NECA's Lessons Help Others

The process of putting NECA together was long and complicated. The lack of applicable

Tennessee law and staff expertise in developing cooperatives contributed to the difficulties MDHA experienced. For example, State property tax laws require the cooperative to pay commercial tax rates—double the residential rate—on the units if more than two are occupied by renters. Once all the units are sold, they can revert to the cheaper residential rate.

Despite the challenges encountered, the limited-equity cooperative is seen as a viable approach to offering ownership opportunities for Nashville low-income families. MDHA staff now has acquired the technical knowledge and skills necessary to begin another cooperative.

In John DeGraphenreed's opinion, factors that were key to the success of NECA included:

- The availability of CDBG funds for rehabilitation.
- The need for a moderate amount of rehabilitation.
- Residents with stable incomes.
- A strong advocate for the affected residents.
- Thorough counseling and training.
- A postsale agreement for ongoing training and management assistance.

MDHA Continues To Seek Homeownership Opportunities

Nashville continues to seek affordable housing for low- and moderate-income renters and homeowners. A Task Force on Affordable Housing, composed of representatives from the public and private sectors, was created in the fall of 1988. When the task force issued its final report the following spring, it concluded that "reliance solely upon Government funding for significant progress toward providing adequate housing is simply not realistic in today's political and economic environment." As a result, it recommended that a nonprofit corporation be established "to provide a 'vehicle' for the private sector to become partners with the public sector in providing affordable housing throughout the Nashville community."

The nonprofit corporation, Affordable Housing of Nashville, Inc. (AHN), was established by MDHA and the United Way of Greater Nashville. Currently, AHN is learning to administer housing programs and is raising funds from corporations to help low-income families find downpayments and to provide other housing assistance to Nashville's low-income families.

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For a brief description of the Public Housing Homeownership Demonstration requirements, see page 135 in Appendix I.

The goals of the Public Housing Homeownership Demonstration (PHHD)—creating housing options, stability and ownership opportunities for low-income residents—have been accomplished in Newport News, Virginia, where the housing authority converted 15 scattered-site public housing properties into homes now owned by former residents. Located in the Southeast Community (SEC) of Newport News, the freestanding one- and two-story homes have three to four bedrooms and an average of 1,150 square feet of living space.

In 13 out of 15 cases, the homes were purchased by families who had occupied them as public housing residents. PHHD benefited almost everyone involved: former public housing residents are proud homeowners, building equity for their future; the neighborhood is being stabilized by refurbished houses; and the city can now fully tax the properties. A local, minority-owned savings and loan provided financing for all of the units. Proceeds from the sale are being used to offer similar homeownership opportunities to other low-income residents.

With only 15 units of public housing—less than 1 percent of the Newport News Redevelopment and Housing Authority's (NNRHA) total inventory—measuring PHHD's financial impact is difficult. Certainly the sale of the units reduces some maintenance and operating costs for NNRHA, and proceeds of the sale expand homeownership opportunities.

William L. Hawkins, NNRHA's executive director, feels the demonstration's biggest impact is not measured in dollars and cents, but in expanded opportunities for residents as they move toward self-sufficiency.

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Newport News, Virginia

City's Support Makes a Program Work

Newport News, Virginia, with several military installations and a stable shipbuilding industry, has been insulated from the economic fluctuations of the past decade. The city has grown steadily over the last 20 years and maintains unemployment rates consistently below the national average.

Unfortunately, like most urban areas, the positive characteristics of the city's "big picture" do not apply equally to all neighborhoods. One such neighborhood, the Southeast Community (SEC), is markedly different from the rest of the city. Population in the SEC has declined by 5.9 percent since 1980, and its racial composition is disproportionately black. Further, the area is poor; at $16,432, the area's median income is barely half the city's overall median income of $29,476. The neighborhood's unemployment rate is the highest in the city.

Homes in the SEC are among the oldest in the city and show signs of deterioration; 56 percent are considered substandard. The area's low homeownership rate—less than 38 percent compared to the city's overall 54 percent—does not help the situation. The neighborhood encompasses 70 percent of the city's public housing units and includes an additional 3,300 subsidized units.

City Leaders Take Action

These conditions have not gone unnoticed by city leaders, who have made concerted efforts to revitalize the area during the past decade. A large section of the SEC is located within one of the city's housing conservation districts where Community Development Block Grants, Section 312 Rehabilitation Loans, Rental Rehabilitation and Urban Homesteading funds are already bolstering improvement efforts. The city has renovated more than 1,000 units in the SEC since 1980.

The housing authority targeted the SEC for the homeownership demonstration in an effort to continue to spur activity and provide future opportunities for the area. For instance, its location within the city's urban Enterprise Zone qualifies the neighborhood for tax abatement, reduced fees for business permits, favorable commercial loan terms and other economic development incentives that support and encourage additional residential opportunities.

Efficiency and Excellence Denote NNRHA

NNRHA, which managed the demonstration, administers the city's Community Development Block Grant program, Urban Homesteading Program, Lower Income Public Housing Program, Section 8 Housing Assistance Program (both certificates and vouchers) and other local housing programs. It also undertakes redevelopment activities. NNRHA's annual budget of almost $3.9 million for assisted housing programs supports more than 9,500 residents, and its annual expenditures for community development-related activities exceed $1.5 million.

NNRHA has a staff of 146. The majority of the staff is involved in the administration of 2,389 units of public housing along with several community programs, including two child-care centers and programs for senior citizens. The remaining staff works on community development activities.

Newport News' housing authority has received national recognition for its efforts in a variety of Federal and State housing programs. Most recently, it received HUD's Sustained Performance Award, which recognized 3 years of excellence in public housing operations, community involvement and resident participation.

Simple Program Design Helps Sell Houses Quickly

When PHHD was introduced, NNRHA decided to keep the program as simple as possible and work within its existing organizational structure. The agency therefore did not apply for technical assistance funds available as part of the demonstration, choosing instead to cover the $15,000 annual staff costs from city funds. "We felt confident we had the expertise inhouse to successfully design and implement the program," said William Hawkins. NNRHA also saved time by not having to develop a request for proposals, advertise and award a technical assistance grant. They could get straight to the business of selling homes. As a result, Newport News was one of the first PHHD sites to sell all of its units.

The director of housing management at NNRHA had primary responsibility for the day-to-day administration of PHHD. Five other staff members were assigned to work part time on the program. Most of the activities took place between October 1985, when the program was approved by HUD, and September 1986, when the last unit was sold. Because the homebuyer selection process was simple and straightforward, most of the staff's effort went into identifying financial institutions willing to participate in the program and preparing the residents for homeownership.

Buyer Selection Achieves Program Objective

In the SEC, NNRHA targeted 15 scattered-site properties, acquired in the late 1970s under the Public Housing Acquisition With Rehabilitation Program using the HUD-FHA property disposition process for defaulted properties. The total acquisition cost, including rehabilitation was $319,690, approximately $21,000 per unit. The frame houses were basic one- and two-story construction, with three or four bedrooms and an average of 1,150 square feet of living space. Because they were detached properties, they were sold using fee simple ownership.

When PHHD was implemented, 13 of the 15 houses were occupied, and since one of the program's objectives was to minimize displacement, NNRHA gave first preference to the current residents. All 13 applied and qualified financially—a happy turn of events that made the selection process easy.

Unlike those in typical multifamily public housing units, the 13 residents of these scattered-site houses were already responsible for routine maintenance activities and were paying their own utility bills. While that somewhat prepared them for becoming homeowners, they still had to meet the following program eligibility criteria:

- A stable income source and employment history.
- A sufficient income so that up to 30 percent of gross income will cover homeownership costs.
- A good housekeeping record.
- A household size appropriate for the unit.
- A good rent-paying history.

Two Families Gain Satisfaction and Pride

It was a dream come true for the Spencers and the Allens. The houses they had occupied as public housing residents now belonged to them.

Although it involved only a few signatures on closing papers, Mr. Spencer says: "It feels different. It feels better. Owning this house means I have something to show for my hard work and something to leave to my two children."

The mortgage payments are slightly higher than the rent payments were, but Mr. Spencer does not mind because they do not go up every time his income increases.

The Spencers have adjusted well to the responsibilities of homeownership. Their well-maintained house and attractively landscaped yard attest to the pride they have in their home and the neighborhood where they have lived for the past 12 years, including 4 as homeowners.

Outside the Allen home a light snow is falling. The house is brightly decorated for Christmas. Inside, Maggie Allen sits in front of the family Christmas tree expressing her obvious pride in the fact that "someday this will all be mine!"

Maggie Allen, her husband and four children had lived in the home for 4 years as public housing residents prior to purchasing it. When given the opportunity to buy the house, she jumped at what she terms a "great deal" and has never looked back. "Being homeowners requires a lot of additional responsibility, but it has also given us an opportunity to get ahead."

One of 15 houses in Newport News' Public Housing Homeownership Demonstration, the Allen home reflects the family's pride.

To fill the two vacant units, NNRHA distributed flyers to public housing residents describing the program, announcing the availability of the two houses and profiling a typical homebuyer. The program was also presented at regularly scheduled public housing resident meetings. The response was overwhelming, and buyers eventually were selected through a lottery.

The 15 homeowners selected for the program vary considerably. Nine are married, five are single females and one is a single male. Households range in size from two to seven people. Incomes range from $7,659 to $29,639, and ages from 27 to 65.

Extensive Counseling Prepares Buyers

To provide a full range of homeowner counseling and services, NNRHA drew on the services of the city's Office of Human Affairs (OHA) and its 12 years of experience as a HUD-approved housing counseling agency. Applicants were required to attend group sessions covering the homeownership program, their roles as homeowners and the role of NNRHA. Potential homebuyers also received individual prepurchase counseling on the responsibilities of homeownership, budgeting and money management. If further help was needed, counselors walked participants through the application process and some even attended loan closings.

The lending institution also held several individual counseling sessions during the loan approval process to ensure that prospective buyers understood their responsibilities.

Help did not stop after the sales. After closing, staff continued to work with the new homeowners to make small home repairs and perform routine maintenance. OHA was prepared to help with employment counseling, education assistance, child care and health services, but these services generally have not been needed. OHA continues to stay in touch with the homeowners to help resolve problems. The purpose of the counseling, says one OHA representative, is to ensure that the homeowners are adjusting to their new role and to anticipate and resolve problems that could lead to defaults.

Private Minority-Owned S&L Finances the Purchases

As with all components of the program, NNRHA wanted to minimize the administrative processing involved in financing. Since the housing authority also wanted to get the most favorable terms for the new homeowners, it

THE
SPENCERs

The homeownership program complemented the city's ongoing effort to improve the Southeast Community. Of the 15 homes sold in the demonstration, 13 were purchased by families that occupied them as public housing residents. The Spencer family home (pictured) is typical of the housing sold.

marketed all 15 homes in the program to financial institutions as a single package.

While initial response from the lending community was disappointing, NNRHA eventually negotiated an acceptable financial arrangement with the Community Savings & Loan Association (S&L), a private minority-owned financial institution located in the SEC. The board of directors of the S&L was pleased to participate in the program, in part because it gave it the opportunity to put the money to work in its own community.

Financing PHHD was a "real learning experience," according to Director Hawkins, "because of the financial characteristics of the homebuyers." Traditional credit evaluations and mortgage underwriting criteria had to be adjusted to take those characteristics into consideration.

Because the homeownership demonstration required more than a traditional mortgage loan program, the S&L's agreement to participate was based on several guarantees. NNRHA would:

- Provide sufficient equity in the property to protect the S&L's interest.
- Include a buy-back provision in its second mortgage instrument, essentially holding the S&L harmless for the first 5 years.
- Work closely with the homeowners and the bank to ensure prompt payment and prevent defaults.

In return, the S&L agreed to loosen its underwriting criteria, accept rent payment histories in lieu of traditional credit histories and raise debt-to-income ratios.

While sale prices were based on the city's assessed value for each property, the actual cost to the homebuyer was based on 30 percent of the buyer's annual gross income. The difference between that figure and the assessed value of the property was covered by a silent second 5-year mortgage, held by NNRHA, that included a buy-back clause. Because it effectively precluded the possibility of default during the first 5 years, this clause provided extra security to the S&L. The silent second mortgage was forgiven at the end of the 5-year period.

The average sale price was approximately $24,200, with the average amount of the first mortgage being approximately $16,700 and the second mortgage averaging approximately $7,500. The second mortgage included restrictions giving NNRHA a right of first refusal for any resale during the first 5 years and limiting the sale price to the amount of the outstanding mortgage. These restrictions are intended to prevent any windfall profit to the new owner and ensure that the units remain available to low-income residents for the maximum time possible.

In all, the S&L committed approximately $300,000 to the project. Interest rates were set at 11.25 percent—1 to 2 points above the rate for its regular customers—to offset the loan's riskiness. NNRHA paid closing costs of approximately $1,500 per transaction out of proceeds from the sales. The loan terms varied from 5 to 15 years depending on each homeowner's ability to pay. Because of their unusual features, PHHD loans were retained and serviced by the S&L.

Warranties Help New Owners

To protect the new homeowners from major financial obligations during their transition from resident status, NNRHA offered a unique 5-year warranty against failure of major systems that required replacements, such as furnace, refrigerator, hot water heater, plumbing and electrical systems. The warranty does not cover minor repairs. The fact that there has been only one claim against the warranty in the last 4 years is evidence of the good condition of the homes at the time of purchase.

City Involvement Was Critical to Success

The city's support and involvement allowed NNRHA to keep the program simple and administrative costs low. Although responsibility for developing and implementing the program rested solely with NNRHA, objectives were well supported by the city's other property renovation and economic development activities in the SEC and the city's Office of Human Affairs, which provided the counseling and training. In addition, getting 15 properties back on the tax rolls was an important incentive to both the city and NNRHA to pursue the homeownership conversions.

According to William Hawkins, "We were really encouraged to get into the demonstration because of the city's ongoing commitment to the SEC. The SEC has been the major target area for our Community Development Block Grant program since that program's inception. PHHD complemented those efforts."

Early and continuous involvement of NNRHA's top managers was another factor contributing to the success of the program. Participation of NNRHA's executive director, director of housing management, director of finance and director of program development at the beginning stages gave the program high visibility, identified it as a top priority and helped implementation proceed smoothly.

"The homeownership demonstration has been a positive experience for both NNRHA and the city," said Hawkins, who encourages other housing authorities to consider resident homeownership options. He offered this advice:

- Be realistic when considering sales to public housing residents. Carefully consider the characteristics of the market you are dealing with and the limitations that may need to be placed on program design. Most participants in low-income homeownership programs are not able to meet many of the traditional financial requirements such as downpayment, credit history and closing costs.
- Do not regard homeownership as a panacea for problems confronting the housing authority. Homeownership will not necessarily make bad communities good, and it is not necessarily a suitable option for every resident. Target your market carefully and use the program to complement your existing housing programs.
- Implement a homeownership program only after a solid market analysis reveals a need. Base the analysis on a solid understanding of both the characteristics of low-income residents and the willingness of local financial institutions to support the program.
- Consider the physical condition and characteristics of the properties when determining the feasibility of the program. Properties should be in relatively good condition to minimize any costly repairs during the first years of new homeownership.
- If at all possible, minimize the impact of possible defaults by not concentrating low-income homeowners in one neighborhood. Encourage a mix of income levels.

Even though the original PHHD has been completed, Newport News remains committed to the goals of the demonstration. For example, with financing assistance from the Virginia Housing Development Authority, NNRHA is currently constructing eight houses. NNRHA will use the $200,000 from PHHD sales to reduce prices of these new homes, making them affordable to low-income families.

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For a brief description of the Public Housing Homeownership Demonstration requirements, see page 135 in Appendix I.

Fort Myers, Florida

Land Trust Used for Resident Homeownership

Land trusts historically have preserved land in perpetuity for specific public purposes such as beaches, forests and historic areas. Over the past decade, they also have been used to provide low-income people with secure land tenure—the first step toward affordable homeownership.

Where local and State laws permit, land trusts are an effective way to deliver affordable homeownership to lower income families. A trust gives the beneficiaries a well-defined and recognized organizational structure and a representative (the trustee) to deal with the often complicated and technical procedures such as property development.

Southward Village Annex is a vacant, nonviable public housing development. The city of Fort Myers and the housing authority have requested to use the first "resident land trust" for the sale of the development to the public housing residents. HUD has determined that the use of a land trust may be acceptable for the transfer of public housing property to residents and has given the housing authority permission to develop a proposal for such a transfer. Planning is underway and includes the following proposed actions:

- The housing authority will sell Southward Village Annex for $1 to a trust whose beneficiaries will be the city's public housing residents.
- A trustee, to be named by the city subject to approval by the residents, will administer the trust. A committee of resident leaders, selected by the residents of all of the public housing developments, will meet regularly with the trustee to facilitate communication between the trustee and residents.
- The trustee, at the direction of the residents, will represent their interests in negotiations for developing the property for homeownership, including removing the deteriorated housing and replacing it with good quality, affordable housing.
- The city's Community Redevelopment Agency will pay for removing the existing structures and clearing the land.
- Dunbar Industrial Action Development, Inc. (DIAD), a nonprofit redevelopment organization, will provide construction financing and build 38 modular units. DIAD will be reimbursed when the units are sold.
- Eight local banks that formed a mortgage pool to fulfill their obligations under the Community Reinvestment Act will provide 30-year mortgages to qualified homebuyers at 9-percent interest (adjustable up to 1 percent every 10 years) with no loan origination charge.
- The resident committee, working with the trustee, will establish eligibility and financial qualification criteria for selecting public housing residents to purchase the newly constructed units.
- DIAD will provide homeownership counseling and training.
- The expected construction cost is approximately $32,000 for a three-bedroom unit and $35,000 for a four-bedroom unit. At these prices, 58 residents who are currently paying rent in excess of the $250 to $270 per month necessary to meet the estimated homeownership costs will be eligible to buy homes.
- The modular units, including land, will be sold fee simple. Purchasers must obtain approval from the housing authority to resell the units during the first 5 years of ownership.

The city had earlier demonstrated its ability to provide low-income homeownership at a non-public housing site. DIAD, established for that effort, successfully developed 200 units of affordable housing for lower and very low income families.

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For a brief description of the Section 5(h) Homeownership Program requirements, see page 135 in Appendix I.

Resident Management Corporation Homeownership Program—

Section 21

Taking Control of Their Destinies

Resident management corporations, after successfully demonstrating the ability to manage their developments effectively and efficiently, may take the next step and purchase the properties from the housing agencies.

In addition to improving their housing, resident management corporations have empowered their members through economic development activities and set them on the road from dependence to independence.

On September 28, 1990, the quest for homeownership by the Kenilworth-Parkside Resident Management Corporation (KPRMC) was ended in a transfer of the title for phase one on 132 newly rehabilitated units. HUD Secretary Jack Kemp handed Kimi Gray, the president of KPRMC, the hard-earned key of ownership, indicating his desire to replicate the spirit and success of Kenilworth-Parkside residents throughout the Nation.

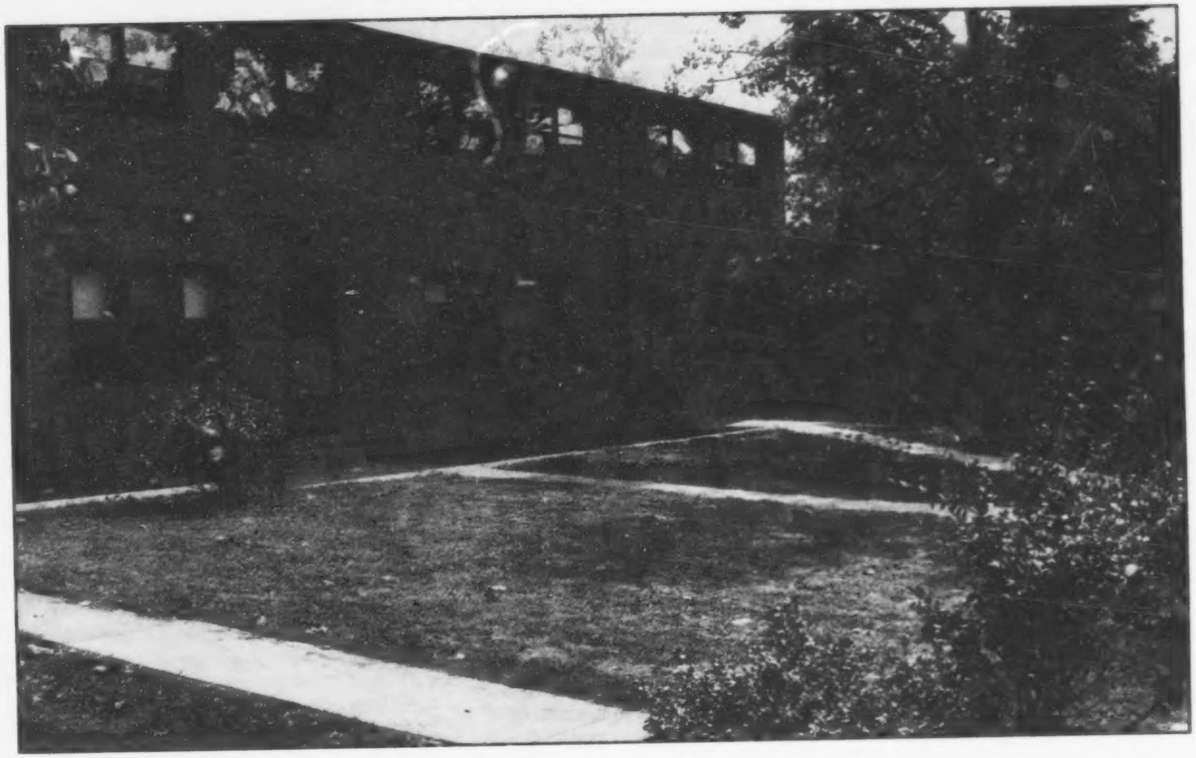
Kenilworth-Parkside, a public housing development in Washington, D.C., has served as a model for the concept of resident-managed public housing. The residents formed a management corporation, KPRMC, in 1981 and have managed their development since 1982 under a contract with the city's Department of Public and Assisted Housing (DPAH).

Now the 464-unit development is entering a new stage of resident control—resident ownership. DPAH recognized that through the resident management of Kenilworth-Parkside, KPRMC had developed a comprehensive foundation of economic, social and personal incentives to improve the lives of low-income families. The homeownership effort builds on this foundation to provide the additional benefit of ownership.

In 1987, KPRMC and DPAH began a two-step process that would showcase HUD's Resident Management Corporation Homeownership Program and lead to resident ownership. The first step is the sale of the property to KPRMC, and the second step is KPRMC's sale of individual units to the residents and other eligible purchasers. Since Kenilworth-Parkside is the first sale under the new program, it has been part of the evolution of policies and procedures for providing public housing residents with the opportunity for ownership.

Washington, D.C.

Kenilworth-Parkside: A Dream Comes True



Kenilworth-Parkside is situated in the northeast quadrant of the District of Columbia, bounded by an interstate highway and the Anacostia River. The 42-unit Parkside Addition was built by the District's public housing authority in 1957; the adjacent 422-unit Kenilworth Courts was completed in 1959. The combined development offers two- to five-bedroom units in 37 two-story buildings and houses some 3,000 people, most of them black and living in households headed by single, unemployed women. Such was the case when Kimi Gray, a 21-year-old mother of five, moved there in 1966.

Soon after moving into Kenilworth-Parkside, Ms. Gray began organizing her fellow residents. Like resident leaders in Boston, Chicago, Jersey City and St. Louis, she became an advocate of resident management of public housing, dedicated to improving the community's social and economic status. In addition to her work at Kenilworth-Parkside, Ms. Gray chaired a citywide board charged with establishing resident organizations at all of the District's public housing developments.

Resident Management at Kenilworth-Parkside Makes a Difference

Ms. Gray's goals in organizing Kenilworth-Parkside are similar to HUD's goals of empowering public housing residents to:

- Influence the events that shape their lives.
- Alleviate crime, drugs and other problems in public housing.
- Provide solid community leadership for social and economic programs that will improve the lives of residents and ensure future self-sufficiency.

Kenilworth-Parkside established a resident council and a court captain system, electing one representative for every 10 units to serve on the council. The resident council set the standards for the development, dealing with matters such as maintenance and evictions. It also considered, as early as 1975, the possibility of the residents managing the development themselves.

Even with resident cohesion and some property improvements, the late 1970s brought to Kenilworth-Parkside the same problems faced by many public housing developments in urban areas throughout the country—decaying and vandalized buildings, lack of services, drugs and violence. Despite management by a private firm from 1979 to 1981, the development continued to decline.

After months in which many units had no heat or hot water, the resident council petitioned the mayor for permission to manage Kenilworth-Parkside. Consent was given and KPRMC, created in March 1981 as a nonprofit organization governed by an elected resident board, entered into a contract with DPAH and began management of the development in January 1982. As one long-time resident recalls, "This was emboldenment."

During the first year of the management contract, technical assistance and training in all aspects of property management were provided to the employees of KPRMC. The resident management corporation took on the responsibility of developing an annual budget, collecting rents, making disbursements, providing maintenance and social services and creating and enforcing resident rules and regulations. The corporation now has about 40 full-time and 5 part-time staff. Key personnel hold college degrees and have specialized training and experience.

The physical appearance of the buildings and grounds improved under the management of the residents. Operating and administrative costs declined, while rent collection increased dramatically. Residents were required to attend weekly sessions on budgeting, child care, housekeeping and home repair. KPRMC added new rules regarding property maintenance and resident behavior, using the court captain system to enforce them. Emphasis was placed on residents' responsibilities, with fines for such infractions as littering or not tending one's lawn. When drug dealing proliferated, KPRMC reacted with unprecedented peer pressure. The dealers were asked, then ordered, to leave. The police were enlisted to help, and dealers were either removed from the lease and evicted, or the entire household was evicted.

Resident management reversed Kenilworth-Parkside's years of decline and despair. The development looks better and runs more smoothly. Statistics show that teenage pregnancies, school dropouts, welfare dependency and crime have been reduced. Because of these results at Kenilworth-Parkside and other resident-managed public housing developments, HUD believes that the involvement of residents offers a powerful antidote to the problems that confront public housing developments and their residents. HUD supports upward mobility strategies linked to low-income housing programs, with the shared goal of resident empowerment and partnership.

Residents Focus on Self-Sufficiency

Recognizing that housing alone, without consideration of the social and economic needs of low-income families, cannot provide lasting improvement to the lives of the residents, KPRMC adopted a self-sufficiency approach—especially economic self-sufficiency—to address housing as well as social and economic issues for the residents. "In the end, it's all economics," Ms. Gray insists. "If we didn't address poverty and unemployability, the nicest housing in the world won't help."

It has been recognized that education, job training, economic development and supportive social services can help to ensure the long-term success of home-ownership initiatives and improve the lives of the new owners. KPRMC's self-sufficiency projects all have been implemented with a dual purpose: to generate revenues and to develop resident skills.

KPRMC's entrepreneurial ventures, which provide residents with both jobs and services, have included a day care center, cooperative grocery store, beauty and barber shop, health center, moving company, screen repair and general maintenance shop, trash removal company, penny arcade, snack shop, construction management company and several recreation programs.

Day care, for example, is free if parents are looking for work or are enrolled in education programs; others pay a modest fee. The day care center trains and pays welfare recipients to be child care workers.

Since the city's trash collection was unsatisfactory, KPRMC purchased a truck and hired residents as staff. Not only has trash collection improved, but the new service operates at a profit.

Another major enterprise is the Reverse Commute Program, funded by a grant from the Federal Urban Mass Transportation Administration. This program shuttles inner-city residents to jobs in suburban Virginia via KPRMC's own fleet of 20-seat buses. A credit union for residents is being established.

Future plans are especially ambitious. They include businesses to repair boilers and remove asbestos and youth enterprises that range from producing silk-screened sweatshirts to creating a franchise to sell cookies at special events. In addition, Deidre Williams, KPRMC's director of community development, says, "We want to become developers. We're looking for suitable nearby sites for development of affordable housing." There are plans for construction of an 84-unit senior citizen townhouse complex on land KPRMC is in the process of acquiring, and for constructing and rehabilitating affordable housing elsewhere.

On September 12, 1989, the accounting firm of Laventhol and Horwath, in cooperation with the National Center for Neighborhood Enterprise, presented its findings on a study of the sale of Kenilworth-Parkside. The principal findings were that ". . . the sale of public housing is an economically viable strategy for reducing costs of public housing, while ensuring its stock of decent, safe, affordable housing for low-income families," and that "Kenilworth-Parkside net present value (NPV) cost savings are generated in the first year subsequent to final disposition of the property to the RMC. These savings gradually increase to accrue $6 million after the 10th year; $11 million after the 15th year; and $26 million after 40 years." It must be noted, however, that savings realized from home-ownership efforts such as this will vary depending on local economic conditions.

Major Renovation Program Undertaken

With KPRMC in place as the property manager, residents began to handle minor repairs as well as daily operations. But, as one resident observed, "We could patch individual units, but not entire systems." Because of its age and years of neglect, the entire development needed major rehabilitation.

To that end, HUD has provided $23 million for rehabilitation with funds from the Comprehensive Improvement Assistance Program (CIAP). In conjunction with the rehabilitation effort, KPRMC has performed resident job training and relocation activities.

HUD policy allows resident management corporations to form joint venture partnerships with local construction firms that can, in turn, contract with public housing authorities to do the rehabilitation work. KPRMC intends to form such a partnership and perform as the project manager, supervising the rehabilitation activities at Kenilworth-Parkside for the units not under contract.

The Move to Homeownership

With its track record of managing Kenilworth-Parkside, KPRMC was an obvious choice to move to the next logical step—resident ownership. To ensure the availability of resources for planning and implementing the conversion, CIAP management improvement funds were provided to KPRMC in 1987. A team of five consultants, led by the National Center for Neighborhood Enterprise, an advocacy organization for resident management of public housing, was hired by KPRMC to develop a feasibility plan for the conversion.

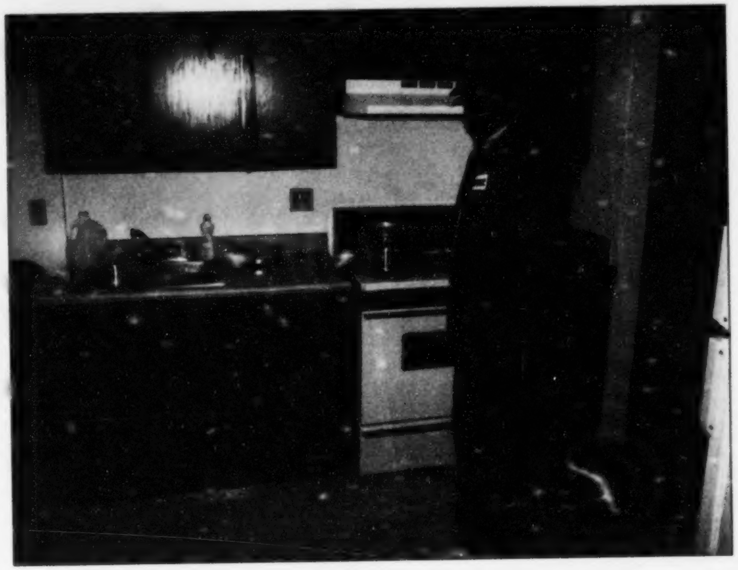
After development of the plan, a public hearing was held at Kenilworth-Parkside in October 1988 to discuss details of the proposed plan and sale. It was well attended by residents of the development and the surrounding neighborhood, who were enthusiastic about the upcoming changes. The proposal to purchase the development received conditional approval by HUD on October 28, 1988, for sale of the property to KPRMC for $1. Actual transfer of title is taking place as the rehabilitation work is completed.

Structure for Homeownership Developed

KPRMC will manage Kenilworth-Parkside as a low-income, multifamily rental property until a resident-approved limited-equity cooperative ownership structure is formed and the units sold. KPRMC will promote homeownership to eligible low-income families that:

- Are currently living at Kenilworth-Parkside.
- Were relocated from Kenilworth-Parkside for the purpose of completing the rehabilitation.
- Are on KPRMC's approved waiting list for units at Kenilworth-Parkside.
- Are living in other public housing developments administered by DPAH.

Sammie Johnson, a long-time resident of Kenilworth-Parkside, shows off the kitchen in his family's newly renovated unit.



- Are receiving Federal housing assistance (Section 8 certificates or housing vouchers) administered by DPAH.
- Are on DPAH's waiting list for Section 8 housing assistance or public housing vacancies.

Transformation of Kenilworth-Parkside from a low-income rental property to a low-income cooperative will follow a six-step process:

- **Cooperative Training.** Potential cooperative board members as well as families interested in membership in the limited-equity cooperative will receive training on the cooperative form of ownership.
- **Cooperative Housing Corporation.** A nonprofit corporation will be established for the purpose of owning and operating the limited equity cooperative under the appropriate District of Columbia regulatory requirements and procedures. The interim board of directors will be the members of the KPRMC. The transition to a board of directors controlled by cooperative members will occur on a staggered basis. Up to four separate housing cooperatives may be created to more effectively promote resident participation and responsibility in homeownership.
- **Operating Policies and Procedures**. The KPRMC board of directors and Kenilworth-Parkside residents will develop and promulgate the bylaws that will stipulate the procedures and policies for operation of the cooperative or cooperatives. Areas to be covered will include restrictions on ownership asset appreciation (to be applied when memberships are resold), membership eligibility rules, membership occupancy rules, procedures for turning over control of the cooperative from the KPRMC board of directors and other important cooperative operating details.
- **Subscription Agreements.** Subscription agreements to be executed between the cooperative and future members will guarantee the right to purchase a membership and will establish the initial purchase price and the rate of earned appreciation.
- **Transfer of Ownership to the KPRMC.** Upon completion of each stage of the rehabilitation work at Kenilworth-Parkside, ownership of the completed buildings will be conveyed to KPRMC and, subsequently, to the cooperative or cooperatives.
- **Transformation of Renters Into Owners.** Subscription agreement holders will enter into an occupancy agreement once the property is transferred to the cooperative. The occupancy agreement will set forth the right to occupy a specific housing unit and the occupant's obligation to pay monthly carrying charges and to comply with the rules and regulations of the cooperative.

Cooperative Ownership Chosen for Its Benefits

KPRMC describes its proposed limited-equity cooperative as a democratically controlled ownership, more concerned about members than profits and nondiscriminatory in its membership structure.

The cooperative form of ownership was chosen by KPRMC because it will promote ownership for interested residents while simultaneously allowing residents not interested in owning to remain as renters. The limited equity cooperative guarantees long-term affordability by limiting resale value. Homeowners and renters alike will be restricted to low-income families. Through the limited-equity cooperative, continuing education and self-sufficiency activities can be promoted for the members.

Counseling and Training Begin

Developing a housing cooperative requires detailed planning to ensure that functional ownership and membership systems are properly established and legal concerns are addressed. Preparation includes membership training and counseling for the residents on their rights and responsibilities under a cooperative form of ownership. The training being carried out by KPRMC includes not only the development of specific skills in such areas as finance, maintenance and management, but also leadership.

Current residents and those who have relocated during the rehabilitation have received counseling and training for their future role as homeowners. All prospective purchasers must meet three requirements: taking the courses offered by KPRMC, paying rent in a timely manner and keeping their units in good condition.

KPRMC's training curriculum includes personal growth and development, basic budgeting, pest control, basic home repairs and orientation to the newly rehabilitated units. Residents who lived in Kenilworth-Parkside have received training in all but the orientation on new units, which they will be given prior to moving back to the development. At that time, they also will be instructed in the responsibilities of cooperative ownership. Until then, the relocation staff keeps in touch with the temporarily relocated residents through occasional newsletters and regular home visits.

Enthusiasm Is High

Throughout the rehabilitation process, the five divisions of KPRMC—human services, resident management, substance abuse prevention, community development and instructional systems—continue in operation. Activities are funded by the management contract with DPAH and grants from public and private agencies.

With regard to the homeownership program, Deidre Williams says, "We want to be so successful that we'll work ourselves out of a job. A resident board will administer the cooperative, and KPRMC will simply be the property manager. Our philosophy is that this is an incubator. Our future homeowners will be building equity, and equity will be their vehicle for moving up and out. The fact is, KPRMC is in the people-development business—which is why we have such varied programs and directions."

Ms. Williams reflects, "Where residents demonstrate willingness and capacity, a housing authority must work to help make it happen. It's so critical." She predicts, "We're going to see an exponential growth of resident management corporations as a mechanism for homeownership—as soon as people become comfortable with the concept."

At DPAH, Kylla Williams, policy analyst and liaison to KPRMC, echoes that note of hopefulness. "What is exciting about this project," she says, "is that KPRMC wants to move from management to ownership. . . . They are creating stages in helping people reach self-sufficiency."

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For a brief description of the Resident Management Corporation Homeownership Program—Section 21 requirements, see page 135 in Appendix I.

Turnkey III Homeownership Opportunity Program

Achieving Homeownership Through Lease-Purchase

In today's housing market, achieving the dream of homeownership requires a significant amount of up-front money—dollars that many lower income families do not have. Reducing that financial burden requires the development of creative financing arrangements. One such arrangement is the lease-purchase agreement.

Lease-purchase agreements can be structured to give lower income families the flexibility they may need to undertake the financial obligations of homeownership. As their equity stake in the properties grows, the future homeowners' commitment to maintaining their homes and improving their neighborhoods increases as well.

The Winston-Salem Housing Authority developed 967 single-family, detached houses in seven locations under the Turnkey III program from 1970 to 1974. Some 872 of these houses had been sold by the end of 1989. The typical leasing period has been 10 years.

The developments, comprising free-standing houses on individual lots, ranged in size from 40 to 255 units with three to five bedrooms. Built according to HUD standards of the day, the homes were of modest proportions without extensive amenities such as central air-conditioning, washing machines or carpeting. Total development costs were approximately $25 million (about $26,000 per unit).

The purchase prices (the full unamortized prices in 1970 for initial homebuyers) were between $18,000 and $32,000. The current fair market values of $25,000 to $45,000 reflect not only the general rise in home prices but also the major improvements many owners have made. The form of ownership is fee simple.

Notable aspects of the program are: (1) a strong commitment by the housing authority and homebuyers, (2) careful screening and selection of participants, (3) outstanding counseling and training, (4) integration of the program with a larger economic improvement strategy, (5) financing obtained directly from private lenders and (6) resident involvement in all aspects of the program.

* * *

Winston-Salem, North Carolina

Lease-Purchase Fulfills a Promise

One of the most industrialized cities in North Carolina, Winston-Salem is the corporate headquarters of RJR Nabisco and Hanes as well as numerous smaller manufacturers. Growth has slowed in recent years; overall, however, the population and economic conditions are relatively stable, with unemployment generally in the 3 to 5 percent range. The city is home to some 143,000 people.

With an annual budget of $10 million, the housing authority's staff of 112 operates 4,300 units, including 1,800 in the Section 8 program (28 staff members were assigned to the Turnkey III program at its peak). The housing stock is aging; no grants to build public housing have been issued since 1981.

"Our philosophy is different from that of many other public housing authorities," says David Thompkins, the former director of the Turnkey III program and now executive director of the housing authority. "That may be partly due to our relatively small size, which keeps us directly in contact with our clients. This is the essence of what we're about: we want people to not spend a lifetime in our buildings. Public housing is for transition."

Some 20 years ago, the Winston-Salem Housing Authority introduced the Turnkey III program to prospective participants with a promise: "You're not going to have to rent from us all your lives, all your children's lives."

The housing authority has kept its word: "Over 90 percent of the homes are now owner occupied," observes David Thompkins. The high success rate comes from a variety of factors: the right program in the right place at the right time and a housing authority that had the right combination of competence and attitude.

"Giving people a warm, freshly painted unit doesn't address much. We don't provide all necessities, but we see that the residents find them." To that end, there is a social service worker and a van at each project. Referral and access to everything from food cooperatives to clothing banks to health clinics is offered; educational programs are ongoing at some sites.

"Quality of life," says Mr. Thompkins, "is a package of things. That's why we've always viewed the Turnkey III program as an opportunity in economic development as well as housing, with an emphasis on counseling and education. Our homebuyers have put their financial lives in order, accepted new responsibilities and moved on to become homeowners. That's how it was supposed to work."

When they reviewed the description of the upcoming Turnkey III program in the late 1960s, officials in Winston-Salem were at once enthusiastic. "It fit with our need for more large family units," recalls Mr. Thompkins, "and the opportunity for homeownership offered a big potential for improvement over conventional public housing, where you can't promise residents a piece of the pie."

Now, 20 years later, it is impossible to know when one enters or leaves most of Winston-Salem's Turnkey III sites. While some succeed visually better than others, all were built with the clear intention of looking like typical privately owned suburban housing. The architectural styles vary—a ranch here, a split-level there, a simple home across the street. Lot sizes and the size of houses, which contain three to five bedrooms, also vary a great deal. Some streets are curved and some are straight. By avoiding the "cookie cutter" look, the developments blend in well with their adjacent residential areas.

However, siting and design are only part of the program's success in Winston-Salem. Most observers agree that the key was the attention given to the human element: the future homeowners. "There is no doubt that the orientation and the counseling aspects were critical," says Barbara Ferguson, the authority's director of management. "Those programs generated great excitement on the part of everyone. They were the impetus for all kinds of change."

Success Hinged on Local Support and Counseling Programs

Because most of the seven sites had to be annexed by the city, the city government's approval and the housing authority's assent were essential. Instead of developing in the center city, the idea from the beginning had been for Turnkey III to create subdivisions at the perimeter.

Neighborhood residents, particularly at one location, objected to the annexation and proposed developments. Some concerns were quelled when the program's emphasis on creating owner-occupied neighborhoods was explained. The housing authority enlisted the YMCA to host the community meetings, helping to cut through the rhetoric and dispel some of the stereotypes about public housing.

To establish programs to counsel and educate residents about homeownership and to train staff, the authority turned to North Carolina State University, which had consulted on similar programs elsewhere in the South. "Contracting with outside experts was essential," says Mr. Thompkins. "It gave us the time and the expertise we needed to run the program, and it was important in dispelling some of the myths about public housing." A neutral third party could help establish a new atmosphere and attract an interracial clientele to Turnkey III.

With the full backing of the housing commissioners, the mayor and the aldermen, the authority submitted its application to HUD in 1969. By the end of the year, construction was underway at the first site, Easton Manor, which was ready for occupancy in August 1970. Three developments were created the following year, two more in 1972 and one in 1974.

Great Interest Continues

Participants learned about Turnkey III through word of mouth, social service agencies, meetings at the housing authority's properties, community meetings and media coverage. Some applicants came from public housing developments, while others were drawn from private-market apartments. There were 25 to 50 percent more applicants than available units, with interest varying according to the characteristics of the individual sites. Even today, 16 years after the last Turnkey III development was occupied, there is a waiting list of 128 households for any vacancies that may occur.

Teamwork Involved in Selection Process

Applications were accepted and reviewed onsite at the new developments, where model homes could be toured. Housing authority staff conducted preliminary interviews, inquiring about job stability, family composition, income levels and attitudes about program responsibilities. In addition to meeting HUD income guidelines, the future homebuyers had to be county residents and employed, with an annual earned income (in 1970) of at least $3,400.

The Mason Family, Homeowners

"We watched it grow," Brenetta Mason says of her home in the Northhills development. "We picked it out as a shell, and then we hoped." She and her husband, Odell, were chosen for the Turnkey III program and became one of the first families to move into Northhills. "It was on February 13, 1971," Odell Mason recalls. Adds his wife, "I think being on the way to becoming homeowners was the crucial point for us. It was like starting all over again." Six years later, they bought their home.

Before February 1971, the Masons were renters in a local apartment complex. They felt it was time to have a home and a yard when their elder daughter was born.

The Masons are both employed: she as a costumer and he as a technical illustrator who works as an engineering technician for the city. In addition, Odell Mason is an accomplished artist whose paintings are shown in local galleries and museums. "If we had depended on the open market," he says, "we would have had to wait much longer. I know because I'd tried to get a loan. We weren't in debt, but our income and savings didn't qualify us. This house was the perfect opportunity."

The Masons' pride in their home is reflected in the care they've taken of it, including the recent addition of a basement and a porch. That pride is mirrored all along their circular street. "We have good neighbors, reliable and very responsible," Odell Mason says. "When people appreciate what they have, they respect it. If they respect it—especially if they're paying for it —they take care of it. That influences the way this community acts and its appearance."

Adds Brenetta Mason, "It's probably no different here than in any other neighborhood of homeowners. The only thing special is that this one was created with the understanding that everyone needs a step to step on if they're going to move on and up."

Brenetta and Odell Mason moved into their Turnkey III home in 1971 and completed the purchase in 1977.

The team from the university assisted the residents, then screened the applications. The final selection was made by housing authority staff, together with a resident representative.

Within 30 days of their interviews, the selected families were notified and received copies of a residents' handbook covering the legal and financial fine points of the program and offering suggestions on moving, property care and money management.

Participants Received Instruction

There was one other requirement for participation: families were required to attend homeownership classes and receive a certificate of orientation. Without the certificate, they could not receive the key. The 12-hour homeownership course was held over a period of 2 weeks. Hours were flexible, with sessions held in the evening and on weekends to accommodate work schedules.

Much of the instruction concerned upkeep of the property: interiors, exteriors and yards. Homebuyers learned how to handle routine maintenance and minor repairs. In Turnkey III programs the housing authority does not have the maintenance expenses associated with conventional rental units, so it can credit the amount budgeted for maintenance to the homebuyer's reserve account. Thus, residents who take responsibility for minimizing operating costs increase their equity.

Toward that end, Winston-Salem's Turnkey III program had its own maintenance staff. Explains Mr. Thompkins, "In the first place, single-family homes have different needs from high-rise buildings. Secondly, we wanted a maintenance crew that would teach residents how to unstop a drain or prepare wood for repainting, not just handle immediate problems." The crew worked with assistance from block captains, who were paid a monthly fee by the authority to store lawn mowers and other community equipment and lead the upkeep effort.

Four of the developments include community buildings and basketball playing areas; one has a tennis court as well. These have been deeded to the city, and the city recreation department is in charge of their upkeep. "People had enough to cope with as new homeowners without taking on the maintenance of community facilities as well," Thompkins says. "It took us 2 years to convince HUD this was the wisest approach, then persuade the mayor and aldermen to accept the properties. We put them in shape and handed them over in 1984."

Financial and Cost-Saving Counseling Offered

The housing authority enlisted a variety of community resources to teach cost-saving practices, both

Shown below is one of the 967 single-family Turnkey III units built in Winston-Salem between 1970 and 1974. The Turnkey III lease-purchase arrangement allows low-income families to accumulate equity slowly so that they can gradually undertake the financial obligations of homeownership.

before and after move in, through quarterly seminars and evening programs. The State Agricultural Extension agent held sessions on how to prepare, buy and can food; and on lawn and garden care. Experiment for Self-Reliance, the local antipoverty agency, offered classes on upholstery and sewing, while Forsyth Technical Institute provided instruction in interior decorating and homemaking.

Representatives from Duke Power Company, Piedmont Natural Gas and the city's water and sewer department taught meter reading and energy efficiency measures—important skills for former residents of conventional public housing who were not accustomed to paying bills for utilities.

Along with property management and consumer education came training in personal finance. Since many participants had poor credit ratings, the housing authority was determined to incorporate financial management into the Turnkey III program.

A nonprofit corporation, Consumer Credit Counseling, provided free group sessions and helped some individuals investigate their credit problems, write letters and pay off their accounts. But most of the coaching came from the authority's staff. "Our emphasis, again and again, was, 'Don't get in debt; hold your spending down,'" says Patricia Caesar, who now manages the Turnkey III program. The residents learned how to create and live on a budget. They were reminded to rethink any large expenditure, such as a car, until their indebtedness was under control.

Motivational Counseling Followed Move

After residents moved into their homes, the housing authority conducted followup visits within a month, then made annual inspections. And there was more counseling. "Our job wasn't just to sit here and see if the program worked," Ms. Caesar notes. "If someone lost his job, we'd say, 'You have 3 months to establish your homeownership potential, and the staff will work with you.' The counseling staff's motivational skills became very strong. We didn't want these families to depend on social services. We wanted them back at work and believing in their self-sufficiency."

Eventually the Turnkey III staff grew to 28. About 2 years into the program, the university's involvement was phased out, and the housing authority took over training and counseling homebuyers as well as selecting participants for the program's later developments.

Private Financing Used for All Purchases

All financing has been obtained in the local private market, mostly from three savings and loans, three commercial banks and a credit company. Mr. Thompkins began laying the groundwork as early as 1976. "We wanted the financial institutions to feel comfortable about lending," he recounts. "People's incomes increased as they stayed in jobs or moved to better ones, and the two reserve accounts were accumulating money, so one's earnings and downpayment weren't relevant. The big hurdle was getting credit ratings approved." Mr. Thompkins visited every lending institution in the city, explaining the Turnkey III program and what was being done to help prospective homebuyers improve their credit standings and financial management abilities.

By the time they were ready to become owners, many participants had established a relationship with a lender. If not, the Turnkey III sales department staff "acted as real estate agents, taking the future buyers to the bank, assisting them with filling out the applications and following up," says Mr. Thompkins. Now, with the program so well known, buyers find financing on their own, according to Patricia Caesar. "They shop around for the best rate," she says. When a lender or the city has a special program, she informs participants by letter.

Financing for Turnkey III mirrors local private mortgage financing. Bank and savings and loan interest rates have been close to 10 or 11 percent in recent years; financing companies charge a few percentage points more. Loan terms average 15 years. Homebuyers are responsible for paying closing costs, which ranged from $700 to more than $1,400. These costs can be included in the mortgage but are usually paid from the reserve account.

In theory, there is a point at which the purchase price in the amortization schedule declines and the equity in the homebuyer's account builds up, resulting in a "no-cost" purchase. In Winston-Salem, this has occurred only once: in 1989, for a family that had been in the program since 1972. "It is unlikely to happen often," explains Ms. Caesar, "because as the homes get older, they begin to need extensive renovations such as roofs and heating systems."

Rather than waiting for their equity to match the purchase price, most families buy their home once their incomes qualify them for a mortgage. The amount of equity (via reserve accounts) that participants have applied to their purchases has ranged from $1,500 to almost $10,000, with an average of around $6,000.

When an initial Turnkey III participant is unable to remain in the program, the purchase price for a subsequent homebuyer is determined by the home's fair market value. It is refurbished to ready it for resale, using the family's initial reserve account.

Defaults and Foreclosures Are Rare

A promissory note restricts the amount of profit an owner can keep from resale during the first 5 years after purchase. That provison is strictly enforced. According to Patricia Caesar, "There are no allowances or exceptions made, even in the case of deaths."

Once a house has been sold, its future is determined by the owner and the private market. Thus, except for the first 5 years when the housing authority, as holder of the promissory note, is notified of sales, not much is known about postownership turnover. During those 5 years, however, defaults and foreclosures have been rare—under 1 percent.

Approximately three-fourths of the original Turnkey III participants are still in their units; all but one are owners. About six families per year have purchased Turnkey III properties in recent times, as the program winds down. Just 97 units are owned by the housing authority and occupied by future homebuyers under lease-purchase agreements. Most of these are in the hands of their second or third prospective buyer. The purchase price balances range from $9,700 to over $37,000.

Program Has Impressive Benefits

As a program for residents who could afford to pay enough rent on average to cover operating expenses, Winston-Salem's Turnkey III always has been a self-financed operation. No operating subsidies have been used or even considered. Proceeds from the sales—over $13 million—were sent to HUD until last year, when the authority was allowed to keep $75,000. As Mr. Thompkins is quick to point out, "When we sell a house, we increase the city's tax base."

Economic development and housing are inextricably entwined in the program, Mr. Thompkins believes, especially on the personal level. "The point was to get these families into the private housing market," he says. "Housing was just a part of their overall move toward independence. Some say the actual achievement of homeownership was secondary; the critical thing was that people felt they were working toward ownership."

Mr. Thompkins is convinced that most of the families would not have become homeowners if it were not for Turnkey III, especially its training and counseling components. "The private market does not offer counseling sessions or help get credit in order," he notes, "and that's what makes the difference." Adds Patricia Caesar, "It's a clean-cut, sensible program, but it also demanded a great deal of time and energy and coming together. In the end, I think that's why everyone feels it's been so worthwhile."

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For a brief description of the Turnkey III Homeownership Opportunity Program requirements, see page 136 in Appendix I.

Mutual Help Homeownership Opportunity Program

Meeting the Need for Affordable Indian Housing

The Mutual Help Homeownership Opportunity Program was designed to provide affordable homeownership to Indian families. Lease-purchase agreements and financial or "sweat equity" contributions from the family or tribe have given the program the commitment and flexibility needed to make it a success.

Housing built under the program has allowed many Indian families to remain in their communities, thus contributing to the stability of both the family and the community.

The concept of mutual help, lease-purchase housing has been successfully adapted by Public Housing Agencies to provide homeownership opportunities to lower income families in various settings.

Over the past 20 years, the Northern Pueblos Housing Authority (NPHA), serving six Pueblo Indian tribes in northern New Mexico, has constructed 548 new homes for low-income families. The homes, of frame, block and adobe construction, provide 1,000–1,600 square feet of living space and include some passive solar models.

NPHA launched its effort through HUD's Mutual Help Homeownership Opportunity Program, directed specifically at providing homeownership for lower income Indian households. Under NPHA's program, families make a land contribution worth $1,500 and then lease the house with payments set at between 15 and 30 percent of adjusted income.

Through the Mutual Help Program, NPHA has blunted the effect of an exodus of younger Indians from the pueblo to urban areas, accommodated the limitations set on the use and conveyance of tribal lands and provided as much as 80 percent of the occupied housing in some pueblos for tribal members with limited incomes.

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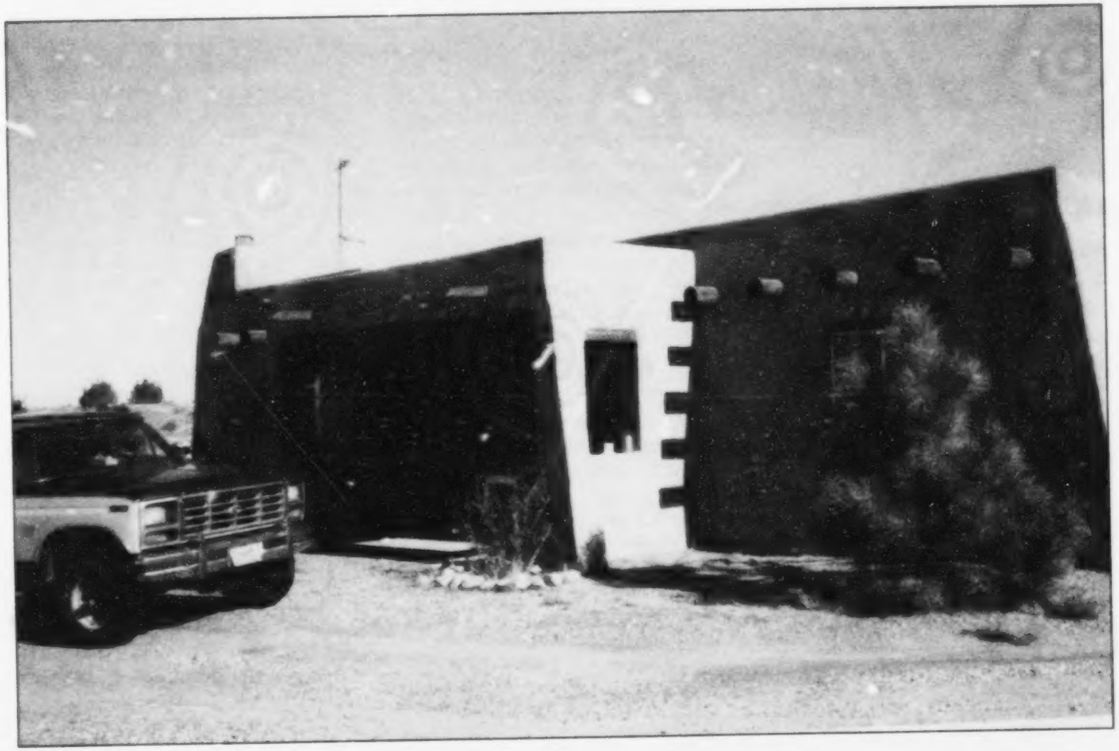
Pojoaque, New Mexico

Sustaining a Culture: Homes for Indians



The land north of Santa Fe, New Mexico, is much as it has always been—largely undeveloped, remote, rugged, mystical. The mountains of the Sangre de Cristo range rise out of it, as do desolate mesas, scrub foliage and jagged rock formations that punctuate the skyline. Much of the land is also tribal and includes the reservations of the six Pueblo Indian tribes: Taos, Picuris, San Ildefonso, Nambe, Pojoaque and Tesuque.

For all its natural beauty, the region is also one of limited housing and job opportunities. Except for the housing NPHA builds, very little has been constructed on the Pueblo reservations here. Jobs are found in the cities—primarily Santa Fe, Los Alamos, Albuquerque—drawing many younger Indians away from tribal lands and into urban areas, putting at risk the future growth of the Pueblo tribes and the preservation of their culture.

For many years, homeownership for the Pueblos remained a distant and seemingly unattainable goal. Compounding the problem, conventional lenders have been reluctant to lend for housing on Indian land because they cannot take title to the land in the event of a foreclosure, restricting the opportunity for resale.

Mutual Help Combines Tradition and Innovation

The six Pueblo tribes have been served by a common housing authority, NPHA, since 1970. A six-member board of commissioners, one person representing each of the tribes, governs the authority and its nine staff members. The board of commissioners approves the homebuyers selected by NPHA for homes within its jurisdiction. A member of one tribe may apply for housing on another tribe's land, but in most cases the demand within the host tribe exceeds available units.

NPHA administers only Mutual Help single-family homes. It has an active homeownership counseling program and offers referrals for financial aid, child care and other social services. NPHA maintains small waiting lists for each tribe for Mutual Help homes, currently about 40 households from the two tribes that requested and received funding in the last round of Mutual Help.

To serve six tribes not only steeped in Pueblo tradition and folkways, but each an entity with its own slightly different culture, beliefs and language, NPHA must exercise much sensitivity and patience. For instance, while the need for housing far exceeds the number of units the authority has produced, no application will be made to HUD for the construction of a home until a tribe has requested the housing and designated the land for its use. In the Taos pueblo, where the need for housing is particularly acute, it is a longstanding tradition that the tribal staff be changed annually. Thus NPHA must begin again each year to secure tribal commitments for housing. Further, although reservation land is one of the tribe's most plentiful resources, much of it is not suited to construction due to floodplains, sacred grounds, lack of utilities and contaminated groundwater.

Despite all of these challenges, the innovative funding provided by HUD's Mutual Help Program was the tribes' only real impetus to launch a homebuilding program that offered affordable housing financed and administered under a system expressly designed to meet Indian needs.

The system is straightforward and simple. HUD funds the construction cost of $47,000 to $65,000 per unit. The homebuyer contributes $1,500 in land and then occupies the unit under a lease-purchase arrangement, making monthly payments based on income. Any funds left from each payment after covering the housing authority's administrative cost are applied to a Monthly Equity Payment Account (MEPA). When the MEPA equals the outstanding debt, the homebuyer becomes the *homeowner* and receives a fee simple title to the property, a process that can take up to 25 years. As the MEPA grows, the family moves closer to purchasing the house. If the family leaves before the house is paid for, funds in the equity account revert to the housing authority.

Houses Are Inspired by Southwestern Style

NPHA's Mutual Help homes blend easily into the land. They are quintessential Southwest: low, flat-roofed, angular, sheathed in adobe-colored stucco. Some are actual adobe brick and many feature traditional vigas, wood beams protruding several feet from the walls just below the roofline.

The homes fit so well into the environment, in fact, that some have been built in the pueblos themselves. The pueblo, or village, is the geographic and spiritual focus of each tribe, and also serves as its commercial and cultural center. Pueblos are usually organized around a central plaza dominated by a Catholic church and the traditional Indian kiva, site of many ceremonies. Mutual Help homes fit comfortably in this environment, testimony to the success of NPHA in creating housing that is architecturally and culturally harmonious.

The first units were frame construction. Later models were pumice block and then adobe brick. No matter what the basic construction, the exteriors feature the adobe-colored stucco indigenous to the region.

Home layouts generally feature 1,000 to 1,200 square feet of living space oriented around great rooms that combine living and dining space and often kitchens. This accommodates the entertainment that often accompanies tribal and religious feasts when many families and friends gather. Bedrooms are arranged on one or both sides of the great room, connected to bathrooms by space-saving hallways of about 6 to 8 linear feet.

"We Wouldn't Live Anyplace Else"

When he was a boy, Gerald Romero's family moved into one of the very first Mutual Help homes built in 1968 by the Nambe Housing Authority (one of the authorities merged into the Northern Pueblos Housing Authority in 1970). When his mother remarried in 1978 and moved to another house, Gerald was selected from among his six brothers and sisters to become the homebuyer. Today, he lives in the three-bedroom house with his wife and two young daughters, and has full title.

Gerald reports that all but one of his brothers and sisters have remained in Nambe and live in Mutual Help houses. "We probably wouldn't live anyplace else," he says. "Our roots are too deep. The HUD program helped us get homes."

Gerald has worked for the tribe for 13 years, writing grant proposals for a variety of community projects. Despite two recently successful grant proposals, he was laid off when the tribe ran out of money before the end of its fiscal year. He hopes to be called back in the new fiscal year to continue to work for the tribe. Meanwhile, he is doing temporary home rehabilitation work for the housing authority and focusing on minor improvements to his own home, including partitions, carpentry and landscaping with grass, trees and shrubs.

Another Nambe homebuyer, Emiliana Gadd, was able to return to the pueblo through the program. She had left Nambe and was living in Phoenix when her mother told her about the Mutual Help program. She mailed in an application and waited for a chance to come home.

When her mother was selected for a Mutual Help home before she was, Emiliana moved in with her until she got her own home. "I had always assumed that one way or another, I would move back to Nambe some day," she says. The program made it an easy transition and reunited her with her family, including three sisters and three brothers.

Emiliana's husband works at the community college in Santa Fe, and she operates a meal program for Nambe senior citizens. She prepares meals in the program's kitchen and delivers them to the senior center in the pueblo or directly to homes.

The Gadds have added carpeting and wallpaper, and the home has held up well through its first decade. The only significant repair needed was a water leak in the washing machine.

When asked what she liked most about the house, Emiliana's immediate answer was, "The home will be mine someday."

Although the exteriors of Mutual Help houses are in the traditional Pueblo style, the kitchens, like Emiliana Gadd's, have all the conveniences of a modern home.

In most cases, heat is provided by liquid propane or natural gas; and the house is connected with electricity, water and sewer service. By limiting construction to land that is served by public water and sewer lines, the authority can save the $5,000 or more per unit it would cost to provide a separate well and septic system.

About two-thirds of the homes are on scattered sites, one-third in subdivisions. Scattered sites tend to be 1 acre or less and may have already been allocated to a specific tribe member as restricted or trust land. Land for subdivisions is contributed by the tribe, and the lots are close to a half acre in size.

Houses Incorporate the Sun

The authority has designed and built 58 passive solar homes on four Pueblo reservations. The design includes energy-efficient orientation and two masonry trombe walls to collect and store solar energy. Externally, the front solar trombe is visible through glazing on both sides of the entry door; a vaulted ceiling and window row at the peak of the roof direct sunlight toward the rear trombe wall on the north side.

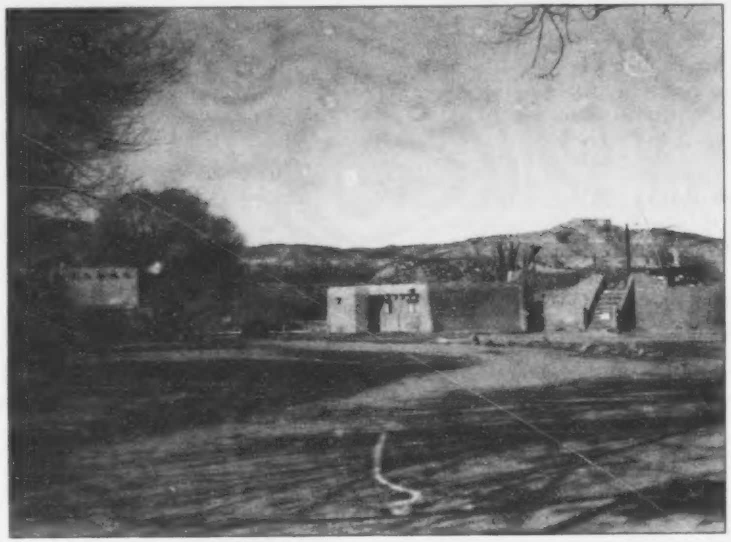
The design proved successful in terms of performance and acceptance, with many applicants for the units. Initial reports indicated that the solar homes delivered 38 to 64 percent of the heating required. The U.S. Department of Energy bestowed a National Energy Award in 1985.

Cost factors, however, have intruded. The solar homes were built for an average of $45,000, not including site development costs and utilities. While costing only a few thousand dollars more than the conventional units, they exceeded HUD's cost guidelines at the time and were more expensive to construct than conventional houses. The design has therefore been discontinued, but the authority hopes to build more (or an even more energy-efficient version) someday, and believes the relatively small additional construction cost can be offset by the utility savings.

The Program Is a Mutual Buy-in

NPHA's Mutual Help homes are not for everyone just for the asking. The emphasis here is on mutual participation. Only tribal members in good standing and within certain income limits are eligible to become homebuyers. Income limits vary depending on the physical proximity to Santa Fe, the largest nearby city. For example, the outlying Taos pueblo income limit is $19,100 for a family of four, while the limit is $31,600 in the pueblos closer to Santa Fe.

The largest initial buy-in is the minimum $1,500 in land each household must contribute up front. Originally, the payment could have been either materials,



Mutual Help homes in the San Ildefonso Pueblo blend with traditional Pueblo architecture. The round building on the right is a Pueblo kiva. On the immediate left is a Mutual Help home.

equipment, cash or sweat equity (with homebuyers required to do large portions of the construction, including insulation, drywall, paint, tile and finish carpentry). Currently, a contribution of land by the tribe is used in almost all cases.

The Program Grows . . . and Changes

NPHA's Mutual Help program has not been static or inflexible, adapting instead to shifting realities over time.

For instance, early units were frequently built with the adobe brick popular in the pueblos. But the cost of adobe forced prices beyond acceptable limits, and adobe had to be discontinued. Recently, however, NPHA constructed 15 traditional adobe homes, using an adobe brick machine that provided finished bricks free. Even so, the costs were still higher than conventional construction because an adobe house uses more bricks than a conventional brick house, making labor costs higher. The NPHA staff remains optimistic, however, and hopes to find a way to continue building adobe homes, since the traditional adobe style is preferred by many of the homebuyers.

Another tradition in pueblo housing, the vigas below the roofline, also proved troublesome. When moisture penetrates the walls, the vigas can cause damage as the wood shrinks and cracks. Maintenance and caulking can prevent structural damage, but the authority chose to abandon vigas to keep the homes as maintenance free as possible.

Maintenance concerns about drainage have also confronted tradition with the flat, gutterless design of the roofs. NPHA has experimented with various roofing and drainage systems to minimize water infiltration and resulting structural damage.

Fireplaces were another concern, and these have yielded to wood stoves in the face of efficiency demands. According to Luis Herrera, NPHA assistant director, "Though fireplaces are traditional in the homes of our people, we found them to be very inefficient. Most of the heat is lost up the chimney. To make matters worse, people would go to bed with fires still burning and the damper left open. As the fire died, the fireplace created a vacuum, causing the furnace to run all night. With wood stoves, people are using one-third or one-half as much wood, getting more heat and spending less on gas. As an added bonus, the flat top of the wood stove can be used as a cooking surface or to warm food."

In an effort to control costs, NPHA has also eliminated some amenities that do not directly increase living space. For example, carports are gone, leaving this feature for residents to construct as they wish.

The Bottom Line Equals Success

NPHA is not a large, cumbersome administrative entity. In addition to the six-member board of commissioners, there are only nine staffers, including six counselors and counselor aides who work with the homebuyers and who are fluent in English, Spanish and two traditional Pueblo dialects used by the tribes. There is a main office in Nambe, with a site office 40 miles away in Taos.

Under NPHA's auspices, 548 Mutual Help homes had been built on tribal lands as of January 1990. Seventy-eight of these have been fully paid for by the participants, who are now full-fledged homeowners.

To the tribes, the effects of the program go far beyond the number of homes constructed or the number fully paid for. The new housing provided by the program gives young Pueblos the chance to remain on the reservation rather than leaving for homes in the cities. Some, such as homebuyer Gerald Romero, might have struggled to remain anyway, but in residences of much lower quality. "I probably would have figured out a way to stay and have my own home," says Romero. "I might have had to start out living in a trailer. It just would have been so much more difficult."

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For a brief description of the Mutual Help Homeownership Opportunity Program requirements, see page 137 in Appendix I.

Since its creation in 1966, the Housing Authority of the Cherokee Nation, operating over a sprawling 14-county area of northeastern Oklahoma, has constructed 2,680 housing units under the Mutual Help Homeownership Opportunity Program. Using scattered sites whenever possible, the program has also been able to avoid the creation of clustered, low-income neighborhoods.

Most important, the program has played a critical role in alleviating deteriorating housing conditions for the Cherokees. Many of the new units have replaced substandard structures that were beyond repair; sometimes, the new home is constructed where a substandard unit was previously located.

Of particular note: in 1990, approximately 750 Mutual Help units were fully paid off by their occupants, who then received full title—testimony to the program's success.

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Tahlequah, Oklahoma

Meeting a Need: 2,700 Homes Built

Northeastern Oklahoma is not ancient tribal land for the Cherokees. Their original home lies 1,200 miles to the east, in the highland Appalachians of eastern Tennessee, Georgia and the Carolinas. Some 22,000 of them lived there at the start of the 19th century. With the arrival of white settlers in great numbers, friction escalated into warfare, and an 1835 treaty ceded all their lands east of the Mississippi to the U.S. Government. Despite their rapid assimilation of white culture, the Cherokees were removed from the area by General Winfield Scott. During the winter of 1838–1839, 18,000 Cherokees began the trek to new land in the West.

Today, the Cherokees are the second largest American Indian tribe, with an estimated 95,000 members in the United States, more than 80,000 of whom reside in 14 counties of northeastern Oklahoma. They live roughly within the historical boundaries of the Cherokee Nation as it existed before Oklahoma statehood and before it became a patchwork of properties under a variety of ownership forms, some Indian and some not.

Unlike many tribes that have a sizable asset in the land they hold, the Cherokees have little land fully held by the tribe that can be contributed for housing. The Housing Authority of the Cherokee Nation (HACN), with funding from HUD's Mutual Help Program, is helping to fill the housing need.

Mutual Help Generates a Big Payoff

Created in 1966, HACN operates from a central office in Tahlequah, about 60 miles east of Tulsa, and four area offices. It is the second-largest Indian housing authority in the Nation, with a full-time staff of 85 and temporary staff of 17. Thirty of the positions are funded through the Mutual Help Program. HACN administers 4,384 total housing units, including low-rent housing, Section 8 rental assistance units and 1,880 Mutual Help homes. The low-rent and Section 8 units are open to non-Indians as well as Indians, but the Mutual Help housing is restricted to households of Indian descent and surviving members of Cherokee families.

Under the Mutual Help Program, each Cherokee homebuyer contributes at least $1,500 in cash, land, labor, materials or equipment. The capital cost for the home and, if necessary, the land on which to build it, is financed through HUD. Potential buyers occupy the home on a 25-year lease-purchase agreement. The monthly payments are based on the family's income, but must be at least $35 per month to cover the housing authority's monthly administrative costs per unit. Homebuyers who can afford to pay more than the administrative fee accrue money in a Monthly Equity Payment Account (MEPA); when the MEPA account meets or exceeds the outstanding balance owed on the purchase price, the homebuyer assumes full ownership.

The 1,880 Mutual Help units represent only those still under control of HACN. Some 800 Mutual Help homes are already paid in full and are no longer under the housing authority's control—just what the program was designed to do. Another 750 are scheduled to be paid off during 1990.

The program has been so successful that even some families who have not individually accrued enough funds in their MEPA accounts to reach full ownership are going to receive fee simple title. Under the original Mutual Help Program rules, HACN received an allocation for a certain number of units, and the project as a whole was paid off as enough funds accrued in the individual accounts. Through diligent collection and investment of the payments over the years, HACN has assembled enough funds to pay off several of the older Mutual Help projects (built 20 years ago), allowing each of the families within those units to become homeowners.

Says HACN's executive director Joel Thompson: "This is the first time that an individual Indian housing authority has paid off a project as a whole, and is probably the largest number [750] of Mutual Help homes to be paid off at one time."

Construction Is Smooth, but Land Grows Scarce

HACN Mutual Help homes are indistinguishable from houses being built today in urban and suburban subdivisions across the Nation: slab-on-grade, one-level frame construction, with brick and siding walls and pitched shingle roofs. The homes are scattered throughout the 14-county area, blending easily with other housing. "They're not really Indian homes in any traditional design sense," says Thompson. "They are homes with Indians living in them."

Most of the Mutual Help homes are three-bedroom units with about 1,000 square feet of living space, including one bath and a combined living room/dining room. Four-bedroom models have 1,200 square feet of space and an extra half bath. Most homes also have an attached carport and storage room.

The design has been refined over the years to emphasize lower maintenance. HACN has switched from wood to vinyl siding, for instance, especially on fascia boards, soffits, gable ends and other high and hard-to-reach areas. As modernization funds become available from HUD, the housing authority also incorporates such improvements in the older units and adds storm windows.

For the roughly two-thirds of the participants who own no land, their contribution usually comes from sweat equity in the construction. Originally, this involved participation in nearly all construction phases, but that has now been substantially reduced to site cleanup, painting and finish work.

Her Own Home—Through Two Heart Attacks and a Wheelchair

Mary Sellers was one of the first Cherokees selected for the Mutual Help Program some 19 years ago. "September 7, 1971, to be exact," she says.

The date is so vividly recalled because so much of her life has gone into the home. Mrs. Sellers and her husband performed the required 500 hours of sweat equity labor for the downpayment, including much of the carpentry. They helped put trusees together and nailed the 4-foot masonite panels in place. Even though her husband was in a wheelchair at the time, "he drove as many nails as any of us." She recalls the time almost fondly. "I think that work is what made me appreciate the house so much. I believe that you should have to work for what you get. If you don't cook, you don't eat."

Mrs. Sellers does indeed cook, and also works in her yard. Even in January, she has colorful geraniums planted. "I had my first heart attack working in the yard," she says. "My son was mowing the lawn and I started to help him with a push mower. I didn't realize at first what happened to me. I just had to lie down."

Two heart attacks have not slowed her. She has raised 7 children and enjoys visits from 10 grandchildren, follows local news closely and is always ready to discuss the latest meeting of the Tribal Council. She added storm doors, carpeting, ceiling fans, an air-conditioner, a new stove and furnace. And she did it all on an extremely limited income. Mrs. Sellers quit her job 31 years ago to care for her ailing husband who eventually had to be placed in a nursing home. "I'm not eligible for Social Security because I didn't work."

Her family remains close. The children are gospel singers with two albums to their credit and still perform on special occasions. They get together every Sunday for a meal. One son, Andy, is the Cherokee Country Sheriff; and he lives next door.

Says Mrs. Sellers, "Please tell everyone that I am so proud of this house and appreciate what HUD is doing to help Indians through this program."

Mary Sellers (left) was one of the original Cherokees selected for the Mutual Help Program 19 years ago. Here she speaks with staff from the Cherokee Nation Housing Authority.

Currently, HACN calculates that 300 hours of sweat equity must be contributed, based on a $5 per hour wage. (Originally, this was calculated at $3 per hour and required 500 hours.) If the homebuyer cannot contribute that amount of time, family and friends pitch in. HACN will also assemble crews of several homebuyers and families to share most of the work and develop a better sense of a group experience.

HACN has also had great success constructing housing with its own staff as a labor force, as opposed to that of a developer or contractor. In 17 Mutual Help projects built by its staff, HACN was able to construct 124 more units than the number specified by HUD for the budgeted amount. These "bonus" units, based on the current funding per unit, should have cost an additional $5.4 million. There is a risk, however, since HACN must bear any construction cost overruns. But, to date, the construction staff has yielded significant savings that can be converted into additional Mutual Help units.

Acquiring land itself is perhaps a far bigger challenge than construction. HACN is finding it increasingly difficult to purchase land suitable for development. To begin with, much of northeastern Oklahoma has soil that over time may settle and cause structural cracks in homes. Some of the more rural properties not connected to municipal water facilities may have problems with wells for the same reason. Preferred land, closer to populated areas, is becoming scarce. Says Thompson: "It is no longer financially feasible for us to buy a 1- or 2-acre site and build a single home on it. Instead, we are finding it more and more necessary to purchase a larger site and erect a cluster or small subdivision of homes. While we don't want to build low-income neighborhoods, we are finding it is our only option to keep the housing affordable."

Need and Demand Are High

There is currently no shortage of demand for Mutual Help homes in the Cherokee Nation. There is, in fact, a waiting list of more than a thousand applicants. But desire is not enough.

Because of the difficulty HACN has in acquiring land, applicants who can provide their own land are usually able to get into the program more quickly than others. Preference is also given to persons in greater need, such as those living in substandard housing.

Those in need of emergency housing, however, are not considered good candidates for Mutual Help homes due to the time required for construction. Such households are usually directed to the low-rent public housing program.

The Mutual Help Homeownership Opportunity Program serves lower income Indian families. The homes in the Cherokee Nation program are similar to ones found in neighborhoods anywhere in the United States, rather than traditionally designed Indian homes.

People with incomes too low to meet the utilities and maintenance costs above and beyond the monthly administrative payment are also discouraged from participating.

Counseling Serves a Major Purpose

For those who do qualify, HACN has created a Resident Services Program that provides training and counseling to homebuyers during and after construction. Counselors who speak and write Cherokee help program participants appreciate and understand warranties, household budgets, routine maintenance and repairs, insurance and basic property law. "Our homebuyers have been renters all their lives," says Thompson. "We need to help them understand the commitments they are making. The homebuyer has made a deal with us to keep this as his or her principal place of residence, make the monthly payments, provide ordinary maintenance, permit annual inspection and pay the utilities."

Warranty issues, for instance, are a major point of confusion. Some buyers believe HACN will repair all items as it would in rental housing. Like most homebuilders, however, HACN provides only a 1-year warranty for the repair of most construction defects. If the house has been constructed by a general contractor rather than HACN, the authority will enforce the warranty provisions of the construction contract. But that is the extent of warranty items.

HACN will not assume the cost of repairing faucet leaks, frozen pipes or other items involving normal wear and tear. In a few cases, it will make defect repairs after the warranty period but, for the most part, after the first year the homebuyer is responsible for all maintenance and repair.

Subleases are another area of potential confusion. Homebuyers can sublease year-to-year if school, the military or a job opportunity requires temporary relocation. But they must have HACN approval first.

Fire safety is also an important consideration. "Like many southerners," says Thompson, "the Cherokees like fried food, and the risk of fires from cooking is high. We try to teach them to avoid these kitchen fires."

Exit counseling is provided as the homebuyer gets ready to pay off the house and become a homeowner. Topics include the importance of continued maintenance and insurance coverage. HACN continues to make insurance available through Amerind Risk Management, a pool created in 1986 by Indian housing authorities to reduce insurance costs for Indians at a time when such insurance was difficult to get and prohibitively expensive.

Mutual Help Offers Opportunity

Mutual Help units outnumber HACN's rental units almost 2-to-1, and are the preferred housing type by both HACN and the Cherokees. HACN prefers it because it can construct scattered-site housing in all 14 counties of its service area. If it could only construct rental housing, management and maintenance concerns would prohibit scattered sites.

The Cherokees themselves prefer Mutual Help because it offers the reachable goal of homeownership. Director Thompson believes the Cherokees have demonstrated that they can successfully build, manage, maintain and pay for the homes. "This has instilled great personal pride in the homebuyers," he says.

HACN wants to build more Mutual Help houses. "We would like to give all Cherokees the opportunity to buy their home," says Thompson. He stresses, however, that they are looking for opportunity, not charity. "Our people welcome a hand up, not a handout."

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For a brief description of the Mutual Help Homeownership Opportunity Program requirements, see page 137 in Appendix I.

Urban Homesteading Program

An Old Approach for New Beginnings

A homesteading program can be the catalyst for revitalizing rundown, distressed neighborhoods and creating affordable housing. Homesteading can be used to provide lower income families with an affordable stake in the future. Working together, the city and the homesteaders help "resettle" neighborhoods by bringing back investment and stability.

Jann Nabors has been a resident of Portland for 15 years and a homesteader for the past 2 years. For her, the Urban Homesteading Program has been "fantastic." Her current housing is superior to the rental unit she lived in previously, and her monthly housing cost is lower as a homeowner than it was as a renter: about $300 a month for her mortgage compared to $400 for rent. She says the Urban Homesteading Program was "even better than I thought it would be" and that the program "ran like clockwork."

Ms. Nabors is just one of Portland's many success stories. Portland operates one of the largest homesteading programs in the country. Since 1979, when the program was introduced, 185 properties have been homesteaded. Of those, 171 were acquired with Federal Section 810 funds and 14 with local funds. In 1989, Portland acquired 17 federally owned and 14 locally owned properties.

Most of the houses are single-family properties; only two duplexes have been homesteaded. The homes have been foreclosed by HUD's Federal Housing Administration (FHA) or the Department of Veterans Affairs (VA). They are acquired with HUD Section 810 funds and are transferred for a nominal charge to homesteaders who then pay for rehabilitation.

If a homesteader occupies the property for 5 years, renovates it to meet local codes and meets the other program conditions, the homesteader receives a fee simple title with no resale restrictions at the end of that period. Portland's program has a 97-percent success rate and has contributed to the revitalization of several neighborhoods.

Jennifer Gardner, Portland's homesteading coordinator, feels that the program "has [made] homeownership [possible for] families who normally would not have that opportunity in Portland. No other program has been able to do this. I have seen some dramatic turnarounds in neighborhoods because of the Urban Homesteading Program."

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Portland, Oregon

Homesteading Turns Neighborhoods Around

The Portland Development Commission (PDC), manager of the Urban Homesteading Program, has been in operation for more than 30 years. Originally created to develop major urban renewal projects, PDC has expanded its staff to 125 and offers housing development and rehabilitation services, economic development training, job creation projects and homeownership training. PDC's major objectives are:

- Revitalizing the central city.
- Improving housing throughout the city.
- Advancing economic development and employment.

Portland's Urban Homesteading Program helps the agency meet all three of these goals. It has become an integral part of the city's strategy to revitalize targeted neighborhoods.

The city has a reputation for developing and managing innovative housing programs and has made a major commitment to revitalize neighborhoods and encourage housing rehabilitation and homeownership. Portland's mayor, Bud Clark, is committed to neighborhood improvement. In 1989, his staff developed a comprehensive Portland Revitalization Plan, which offers specific neighborhoods increases in the full range of city services, including housing, police, fire, code enforcement and trash removal.

The City of Roses Moves Forward

Portland is known as the "City of Roses" and has a climate and natural environment that make it a desirable place to live. Its population of 440,000 is emerging from a period of slow economic and housing growth. Residential building permits were up 31 percent last year. Portland has a lower unemployment rate (4.1 percent) than the national average (5.2 percent) and a low housing vacancy rate. HUD estimates the area median income for a family of four at $36,200.

In the 1980 census, Portland had 184,209 housing units made up of 63 percent single-family and 55 percent owner-occupied units. In 1978, Portland estimated that more than 70 percent of its housing was more than 35 years old and that 15 percent, or approximately 27,000 units, did not meet minimum housing codes. Over the past 10 years, PDC has loaned funds to homeowners to stimulate the rehabilitation of over 20,000 housing units. More than 12,000 of these loans were low-interest and deferred payment loans.

Carefully Selected Properties Affect the Whole Neighborhood

When PDC selects potential homesteading properties, it concentrates on blocks where homesteading will turn around part of the neighborhood. Other selection criteria include a limit on rehabilitation cost to 90 percent of the value after rehabilitation, and the condition of the houses on either side of the property. Portland has targeted 3 large neighborhoods, which are divided into 26 subneighborhoods. Jim Anderson, vice chairman of the King Neighborhood Association, representing one of the targeted neighborhoods, says "the first step in restoring a neighborhood is restoring its homes, putting families back in them."

Most of these properties have been vacant for some time, have been vandalized and require major repairs. Jann Nabors' house had been abandoned for 3 years. She says the house was simply "a mess." The before and after photos in her scrapbook show the dramatic difference she has made.

Typical houses need new kitchens and bathrooms, interior and exterior painting, some carpentry and cleanup. The average rehabilitation cost is $25,015.

PDC staff members first assess the inside and outside of the property to ensure its suitability for homesteading. Using a checklist, they then inspect the property in detail, documenting the items that need rehabilitation and noting estimated costs. PDC uses a computer-based cost system that determines individual and total rehabilitation costs based on the type and quantity of items needing repair.

While rising costs of FHA and VA foreclosed housing in Portland have limited the choice of properties, there are still enough to run a large-scale homesteading program. The addition of a locally funded homesteading program using Community Development Block Grants gives the city the flexibility to acquire vacant, locally owned properties in target blocks and neighborhoods.

Over the past 10 years, PDC's average cost of purchasing houses has been $19,423, well beneath HUD's $25,000 ceiling for single-family properties. Most of the Federal properties acquired are from FHA, as most of the VA properties are too expensive for Section 810 funds. Last year, PDC received a 10-percent discount on the market value of FHA properties, while the VA did not provide a discount. FHA now discounts all properties by 10 percent to local urban homesteading agencies across the country.

Criteria Limit Who Can Apply

Applicants are screened for basic program eligiblity criteria before their names are entered in a lottery for homes.

HUD prescribes the following criteria for homesteaders:

- The household may not own residential property.
- The household must have the requisite capacity to rehabilitate the property either through sweat equity or the ability to obtain financing.
- Households with income at or below 80 percent of the median income for the jurisdiction must receive a special priority.
- The applicant must be the head of the household.

In addition to the HUD criteria, PDC requires that homesteaders:

- Be 18 years of age or older.
- Not have assets in excess of $20,000.
- Have $500 for a downpayment to cover the first-year taxes and interest, a stable income and a good credit history.

PDC Markets the Program and the Properties

Each year, PDC distributes flyers, press releases and briefings to 2,500 people on its mailing list announcing periodic open houses in newly acquired properties for people who are interested in the program. Jann Nabors found out about the program from a friend at her church who gave her a program brochure.

Approximately six open house events are held each year, with up to eight properties shown during each event. Potential applicants visit the open houses and, if interested, submit their names for one

A Single Mother Becomes a Homeowner

Carrie Haws wears several hats: she is a divorced mother with two children, a welfare caseworker for the State of Oregon, and has been a homesteader for 6 months. She and her children, Andrew and Ngzi, live in a three-bedroom house in a quiet single-family-home neighborhood. Her home is pictured on page 81.

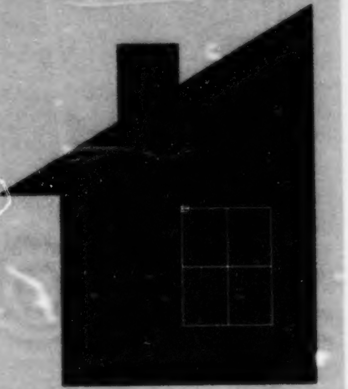
Carrie heard about the program from a coworker who was a homesteader. Thinking homesteading was a good idea, she visited four homes during an open house event and entered her name at each house. As luck would have it and much to her surprise, she was selected right away.

Not only was Carrie lucky to be selected so quickly, she also was lucky because her house was picked to become part of the high school rehabilitation training program. She received more rehabilitation for her money and didn't mind waiting the extra 6 to 7 months for the students to complete the work.

Carrie says, "I could never have afforded to own a house on just my income without the Urban Homesteading Program." She says that the program is great. "It is a wonderful opportunity and benefits the city as well as the homesteaders." She finds that "being a homeowner is sort of frightening and you have more responsibility, but it is a great feeling.

"The quality of the house is much better than the rental house I lived in before. My rent payment was $100 more a month than my $251 mortgage payment."

Carrie found the homestead agency staff helpful and professional. She likes the seminars on different topics, attends all of them and also attended all of the training sessions.



or all of the properties. People who are homesteading other properties, as well as PDC employees, staff the houses, answering questions and making themselves available as mentors if needed.

Through a lottery, PDC selects 10 names for each property. Households that have two or more children are given first priority for houses with three or more bedrooms. The first two names drawn are underwritten for loans in the order their names are drawn. If both applicants qualify, the first applicant proceeds, and the second and subsequent names drawn remain on reserve if financing falls through for the first applicant. The underwriting includes income eligibility, verification of income, credit history and a judgment about whether the applicant has sufficient income and job stability to be a homeowner.

Jann Nabors visited several houses during one of PDC's open house events and entered her name at each one. She prayed for the three-bedroom home and was thrilled when her name was selected first. She qualified financially for the program and became a homesteader. To Ms. Nabors the house is "truly a blessing."

Renovation Is Completed Quickly

Renovation begins as soon as the loan is settled. Homesteaders may select a contractor from a list of PDC-approved and bonded contractors or choose someone else. Homesteaders receive a copy of PDC's checklist to help them complete the renovation. PDC monitors the progress and quality of the rehabilitation and makes payments based on the work's progress.

Nearly 10 percent of the homesteaders lower their expenses by performing limited sweat-equity tasks such as cleanup and painting. But Portland's program requires that rehabilitation be completed in 60 days and, given that most homesteaders have full-time jobs, large-scale sweat equity is not practical in the 60-day timeframe.

Students Help With Rehabilitation

In conjunction with the homesteading program, the Portland school district conducts a 9-month rehabilitation and carpentry training curriculum for high school students under the Homes Rehabilitation Training Program. PDC selects a house that needs more repair than is ordinarily affordable under a rehabilitation loan. The students rehabilitate the property during the school year for the cost of the materials, which is paid for by the homesteader.

Working together, the city and the homesteaders help resettle neighborhoods by bringing back investment and stability. Jann Nabors became a homesteader 2 years ago when she bought this bungalow; she is one of Portland's many homesteading success stories.

Homesteaders are selected through the normal process and are told that the house will be rehabilitated by students under the supervision of teachers and will take 9 months to complete. The homesteader thus receives a high-quality rehabilitation job for a lower cost than is available in the private sector.

Comprehensive Counseling and Training Programs Conducted

Portland conducts one of the Nation's most extensive training and counseling programs in urban homesteading. Homesteaders must attend a series of three training sessions covering the following topics:

- Obtaining financing, selecting a contractor and taking on the responsibilities of being a homeowner.
- Operating the major systems in a house such as heating, plumbing and electrical.
- Maintaining and cleaning a home.

Homesteaders find that the training session describing the homesteading process is the most helpful. After completing two of the three sessions, the homesteader receives a complimentary copy of the *Reader's Digest Home Repair Manual.*

Additional periodic seminars are held on such topics as financial planning and gardening. Notices are mailed to all homesteaders in advance of the seminars and training sessions, which usually last 2 hours. The instructors are generally PDC homesteading program staff members.

PDC provides one-on-one counseling to households on family budgeting, selection of a rehabilitation contractor and rehabilitation needs in the house. The budget counseling lasts for 30 minutes, while the rehabilitation session averages 5 hours. Additional counseling is provided to homesteader families if they fall behind on mortgage payments.

Jann Nabors thinks the training was excellent and praises the availability of the staff, saying, "They are always available to help with questions or problems."

Defaults Are Rare

Only 5 of the 185 homesteaded properties have been foreclosed during the 5-year conditional conveyance period. One house was foreclosed after the 5-year period ended.

When a homesteader makes a late mortgage payment PDC is notified, counsels the household and decides if the missing payments can be repaid. If a default occurs, PDC is notified and takes title to the property under the terms of the conditional conveyance. When a property goes into default, the agency selects a new homesteader to take over the house and loan payments. The 5-year conditional period starts over for the new homesteader. If additional rehabilitation is required for the house, the new homesteader can obtain a small second loan to cover the cost. The agency pays the mortgage costs during the transition from the occupancy of the first homesteader to the second.

The Homesteader Agreement, executed between the homesteader and the agency, contains the following five Federal conditions:

- Repair all health and safety defects within 1 year.
- Complete all repairs within 3 years.
- Occupy the property for 5 years.
- Permit inspections.
- Surrender possession of the property upon material breach of the agreement.

After the homesteader has fulfilled the conditions for ownership, a fee simple title to the property is provided. Few of Portland's homesteaded properties have been sold after the 5-year period, in part because the homesteaders become settled in the neighborhood and the financial appreciation of the property has not been high enough to entice them to sell.

Women and Minorities Make Up Half the Homesteaders

The minority participation in the program contrasts sharply with the 13-percent minority population of the city. Forty-six percent of all homesteaders are minorities. A group that is not well served by other programs—female heads of households—is well represented in the program. Of all homesteaders, 48 percent are female heads of households.

The average homesteading household consists of 2.8 persons.

Average income is $14,542, considerably below the program ceiling of 80 percent of the area median income, or $28,960 in Portland. All homesteaders have a stable employment history, and while most are in their 30s, one homesteader is elderly.

PDC Makes Arrangements for Financing

PDC makes financing easy for homesteaders by arranging the financing and packaging the loan, which is limited to $27,000. The average loan is $25,015 and the average monthly loan payment including principal, interest and taxes is $238. In the past, Portland used HUD's Section 312 rehabilitation loans extensively because these funds provide 3-percent interest to households earning under 80 percent of the median income. However, as the funding for Section 312 loans has fluctuated over the past few years, PDC has been relying on loans from a combination of private and Community Development Block Grant (CDBG) funds that were offered at a 6-percent interest rate with 20-year repayment terms. Private loans are not difficult to obtain, but since their interest rates and monthly payments are higher than Section 312 loans and the CDBG funds, the properties become less affordable for lower income homesteaders.

PDC also has a Lump Sum Participation Agreement with a major Portland lender. CDBG funds are deposited with the lender, who agrees to make loans to rehabilitate houses at below-market rates. The lending rate is 3/4 of a percent below the prevailing VA mortgage rate for homeowners.

Portland Experiments With Other Homeownership Programs

Another example of concentrating housing programs to revitalize homestead neighborhoods is now taking place in Portland's northeast neighborhood, where HUD has recently approved a program for participation in the Nehemiah Housing Opportunity Grant Program. The Northeast Community Development Corporation (NECDC), a nonprofit community development corporation, will rehabilitate 150 homes and construct 100 new homes on vacant neighborhood properties for sale to low- and moderate-income homeowners. (See page 126 for an example of the Nehemiah program.)

PDC Staff Has Diverse Skills

PDC has a staff of 125 professionals and is governed by a five-member board appointed by the mayor and approved by the city council.

Each year PDC receives CDBG funds from the city to operate its housing and economic development programs. In 1988–1989, PDC received $8.2 million in CDBG funds (including income from revolving loan funds that PDC handles for the city); $426,520 in CDBG funds was used to administer the homesteading program. In addition, the city's homesteading program received $2.8 million in HUD Section 810 funds through 1989 and generated $3.8 million in rehabilitation loan funds through 1988.

PDC manages a variety of housing programs, including single-family and investor housing rehabilitation, and downtown housing preservation that focuses on single-room dwellings. The single-family rehabilitation programs include rehabilitation by homeowners, urban homesteading and the rental rehabilitation program. Economic development projects include job creation and preservation as well as business recruitment. PDC also manages large downtown redevelopment projects.

A full-time program coordinator administers the combined Federal and local Urban Homesteading Programs. In addition, the program uses:

- Three rehabilitation specialists (rehabilitation cost estimation and contractor monitoring).
- One financial adviser (packaging rehabilitation loans).
- One homestead technician (homesteader liaison and training and counseling arrangements).
- One secretary.

Other personnel contribute small portions of staff time. These resources include professionals in:

- Real estate appraisals.
- Loan servicing.
- Financial services and accounting.
- Legal services.

Dedication Pays Off

The features that really make Portland's program work include:

- Training classes for homesteaders.
- Counseling sessions.
- Availability of federally owned properties.
- Support from the city.
- Dedication of the program staff.

Portland aggressively pursues and obtains funding for its Urban Homesteading Program and runs a high-quality operation. Properties are acquired and homesteaded quickly so that HUD's funding allocation is obligated in a timely manner. The city is then ready with a reserve of potential properties and homesteaders, should HUD have additional funds at the end of the fiscal year.

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For a brief description of the Urban Homesteading Program requirements, see page 137 in Appendix I.

More than 600 families who previously rented are now settled in their own homes, thanks to Milwaukee's Urban Homesteading Program. As these families have gained homes, the city of Milwaukee has also gained improved neighborhoods by reconditioning properties that were previously vacant and rundown. The homes now brighten neighborhoods and add stability to previously declining areas.

At first glance, the $1 purchase price and $1,500 reserve account seem to make the houses giveaways. New owners, however, typically pay $28,000 for rehabilitating the property. They must begin the repairs within 30 days after settlement, have the home up to local codes within a year, complete renovations within 3 years, and live in the house for 5 years before they receive a fee simple title.

One of the first cities to join the HUD Urban Homesteading Program, Milwaukee now leads the Nation in the number of properties homesteaded since 1976, with 627 properties containing 841 dwelling units.

The program is immensely popular. During the 1989 homesteading cycle nearly 1,000 families applied for 30 available homes.

Milwaukee, Wisconsin

Homesteading Helps Residents and City

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Homeownership is a tradition for Milwaukee's 600,000 residents. Nearly 47 percent of the city's 125,000 households live in owner-occupied homes, and families remain attached to their neighborhoods in part because of the city's strong ethnic and civic pride. That tradition is also the driving force behind the Department of City Development's HUD-supported Urban Homesteading Program. Through the program, Milwaukee seeks to stabilize those inner-city neighborhoods that face rising vacancies and declining populations. Rebuilding and maintaining these neighborhoods is a top priority in the program, says Maria Prioletta, the city's manager of financial services. "We know that one homesteader alone cannot change a deteriorated neighborhood, so we look for areas where several homesteaders can have a stabilizing influence."

Milwaukee's program operates in the city's Community Development Block Grant (CDBG) service region, but focuses on four submarket areas:

- Eastside. A primarily residential area with a mix of single-family homes and apartment complexes. The large number of apartments contribute to an owner-occupancy rate of only 22 percent.
- Northside. A neighborhood characterized by its large minority population with household incomes at or below the city's median. Forty percent of the housing is owner occupied.
- Westside. A mixed use, integrated neighborhood with a very low owner-occupancy rate and a stable population. Vacancies, however, are increasing.
- Southside. A mostly white neighborhood with a recent influx of Hispanics and an ownership rate slightly below the city average.

While these targeted areas are located in all directions from downtown, much of the current homesteading activity is concentrated in the Northside, where a majority of available properties fall well within price guidelines set for the Urban Homesteading Program ($25,000 for single-family homes and $33,000 for duplexes). In other areas, property values exceed these approved maximums, reducing opportunities for acquiring properties.

A five-member board—an alderman, the city inspector, the commissioner of city development and two members appointed by the mayor—directs the Urban Homesteading Program. Day-to-day administration is handled by the Department of City Development's Division of Housing Development and Rehabilitation (DHDR). John Worm, the urban homesteading coordinator, and a homesteading secretary are the only full-time staff. Other staff, including two rehabilitation specialists, a loan officer and a program monitor, divide their time between the Urban Homesteading Program and other programs administered by the division. The division currently manages 298 urban homesteading units. Salaries and other operating costs of the program come from CDBG funds.

HUD Funding Keeps Homestead Prices Affordable

Since 1976, HUD has awarded $7.2 million to Milwaukee to purchase homes from the Federal Housing Administration (FHA), Veterans Administration (VA) and Farmers Home Administration. Milwaukee's relatively affordable housing market, where sale prices for single-family homes averaged $55,000 in 1988, makes it fairly easy for the city to purchase foreclosed properties and still stay under the program's price ceilings.

In choosing properties to be homesteaded, DHDR staff not only evaluates the original purchase price, but also whether properties can be renovated for less than 90 percent of the final market price after rehabilitation (generally between $33,000 and $40,000). A good rule of thumb, the staff finds, is to select only those properties that can be refurbished for less than $35,000. But price is not the only consideration; a house must also be vacant, structurally sound and have sufficient yard space and parking.

Duplexes Expand Ownership Opportunities

Duplexes account for 28 percent of the city's housing stock. In 1988, their average sale price was under $58,000, with the per unit price, of course, being lower. Affordability increases when one unit is rented. By figuring in the supplemental income from a rental unit, buying a duplex expands homeownership possibilities.

As a result, homesteaders frequently choose to purchase duplexes. Single-family homebuyers are required to have a minimum annual income of $12,000, but families with annual incomes as low as $9,000 can sometimes qualify for a duplex. During the past 13 years, more than 200 duplexes have been homesteaded by families with low and very low incomes.

Guidelines Foster Success

DHDR opens the homesteading application process once a year. The staff reviews all applications and places names of those who qualify on the homebuyer list for that year.

DHDR staff sends announcements to previous applicants and posts legal notices, but word-of-mouth marketing is so successful city officials are reluctant to expand marketing efforts because the demand for the homesteading program greatly exceeds the supply. Only 30 properties were available in 1989, but more than 1,000 families expressed interest in becoming homesteaders. Of those, 200 families were eligible for the program and placed on that year's homebuyer list.

Becoming a homesteader in Milwaukee isn't easy, but DHDR staff feels the guidelines, which have evolved through years of experience, help avoid pitfalls and foster success. To qualify for the city's Urban Homesteading Program, an applicant must be:

- Eighteen years or older.
- The head of a household.
- A U.S. citizen or registered alien.
- A first-time homesteader who has not owned any real estate in the last 3 years.

The city also wants to avoid potential defaults and ensure success for as many homesteaders as possible. That's why the review process includes special emphasis on each family's financial status and budget. All applicants must:

- Show a legal, reliable and verifiable source of income.
- Allocate at least 25 percent of gross income for housing costs.

Juanita Parker's Dream Home

It's a bitter December day, but Juanita Parker and her mother, Dollie Cole, brave the cold to head for the Urban Homesteading Program office. They are about to close on the purchase of a three-bedroom homestead and are also signing a CDBG-funded mortgage of $25,000 to cover renovations. They will move in when renovations are complete.

Juanita works for a medical personnel pool while taking classes to become a paralegal. Her income, combined with her mother's Social Security, qualified them to purchase the homestead.

Juanita gushes with excitement. "It's my dream home. I love everything about it: the steps, the fireplace—even the basement, where there's a laundry and plenty of room for visits from my children and grandchildren. The basement will be their space. They will love it and so will we."

The new homeowners are also very happy with the neighborhood. "People keep their yards clean," Juanita says, "and you don't see graffiti and kids hanging around." Two key bus lines allow Juanita easy access to school and various work assignments.

Dollie favors the back yard, where she is already planning a large summer garden. But she also is using the renovation time to think about interior decorating.

As a program monitor presents the new homeowners with copies of the signed documents and a gift of a home repair manual, Juanita beams. "It's a different feeling to own a home," she says. "There's a peace of mind from not having to wait on a landlord to do something. It's ours. It's really ours!"

Juanita Parker (left) and her mother, Dollie Cole (right), attend the closing on their new home with city employee Suzanne Dennis.

- Provide an acceptable credit history.
- Have access to $1,500 cash ($500 for insurance and $1,000 for reserves).
- Provide adequate security for the loan.

Of those applicants who meet the criteria, first preference is given to families with incomes of less than 80 percent of the median income. The homes are offered on a first-come, first-served basis.

As their names approach the top of the homebuyer list, applicants attend an open house at one or more properties and express an interest in a particular property. Failure to attend the open house or express interest is recorded as a refusal; two refusals and the applicant's name is removed from the homebuyer list.

Bryant and Tammy Johnson are typical. Bryant is a truckdriver; Tammy is a full-time homemaker. With just one income and two children ages 5 and nearly 2, the family was unable to purchase a suitable home on the open market. They heard about the program from Bryant's brother. They had talked to their landlord about buying the house they were renting but had not figured out a way to actually make the purchase.

While the original purchase price is very low, homesteaders invest significant amounts of time and money in their homes. The Johnsons arranged for a contractor to perform more than $20,000 of improvements funded with a Section 312 rehabilitation loan. Work on their three-bedroom, one-bath house included upgrading the electrical service; renovating the kitchen and the bath; repairing the roof; and installing storm windows, doors and a new furnace. Some sweat equity tasks still remain. Bryant will complete kitchen and gutter repairs, landscape, trim trees, fix the fence and paint the garage and interior walls. Later, they will panel walls, improve their daughter's bedroom and replace some stair railings.

Homesteaders who rehabilitate their homes, consistently meet their rehabilitation loan repayment schedules, live in their houses for 5 years, carry adequate insurance, pay real estate taxes and allow the city to inspect their properties periodically, take full title to their properties at the end of the 5-year period and are then free to sell their homes with no resale or price restrictions.

Few homesteaders, however, purchase properties with an eye toward making substantial profits. The local housing market tends to be stable, and most homes in the program are in neighborhoods where property values rarely exceed $40,000.

Program Draws on Varied Loan Sources

Rehabilitation funds come from a variety of sources. Because of their

These bungalows are typical of houses in Milwaukee's Urban Homesteading Program. The house on the left has not been rehabilitated; the one on the right is nearing completion.

low incomes, most homesteaders do not have large savings accounts and cannot qualify for private financing. Instead, DHDR staff works with each homesteader to find the best sources of loans. Since 1984, Section 312 funds have made up approximately 55 percent of all loans. Section 312 funds have provided $3.4 million for 20-year rehabilitation loans with interest as low as 3 percent. Those unable to qualify for Section 312 loans borrow from the city's CDBG program. None of the current homesteaders has defaulted, a success rate the staff attributes to careful underwriting and quick identification of delinquencies. The staff contacts borrowers as soon as they are 30 days overdue and works with them to correct problems before delinquencies mount up.

Monthly payments on loans, taxes and insurance average $250 to $300 per month—a cost equal to, or only slightly higher than, what most homesteaders paid in rent. In a few cases, the costs actually go down. The Johnsons are paying $75 per month less than they paid as renters.

Program Staff Offers Assistance

The homesteading process can sometimes be complicated, but Milwaukee's homesteaders don't have to feel alone. The loan officer and urban homesteading coordinator work with prospective homesteaders on an informal, one-to-one basis throughout the application process explaining administrative details of the loan approval process, the settlement process and program requirements as well as solving credit problems that may adversely affect the loan application. The staff also helps homesteaders determine the scope of rehabilitation, select contractors and supervise the work.

This individualized counseling has proven very successful and still continues, but it was recently augmented with structured briefing sessions for groups of five homesteaders.

The city's partnership with the homesteaders doesn't stop at settlement. The program monitor reviews the homesteader's compliance with the agreement, monitors loan and tax payments, tracks insurance policies and verifies residency. Should other problems arise, the monitor helps the homesteader comply or, as a last resort, refers the problem to the city for legal action. But this has rarely happened. In more than 13 years, fewer than 30 of the more than 600 homesteads have been reclaimed—and most of these were due not to financial failure but failure to meet the 5-year residency rule.

New Homesteading Opportunities Being Developed

The program has proven so successful that city officials are working with several interested parties to explore other sources of rehabilitation loans. The State Housing Authority is examining bond-financed home improvement loans and the Milwaukee Neighborhood Housing Services is expanding its secondary market program to include improvement loans. Area utilities are providing funds for furnaces and weatherization, and a local consortium of lenders is creating an at-cost loan pool, which the city may further subsidize.

In 1990, Milwaukee will begin experimenting with city-owned property as a way to give public housing residents homesteading opportunities. The city also has formed a partnership with Habitat for Humanity, a nonprofit international organization headquartered in Americus, Georgia, dedicated to building and renovating housing for low-income families. In this fledgling partnership, the city acquires properties while Habitat volunteers provide labor for roofing, drywalling and other projects. This allows the homestead family to substantially reduce rehabilitation costs.

As these and other possibilities develop, Milwaukee hopes to offer homesteading as an option for more families.

Homesteading Has Favorable Impact on Inner-City Neighborhoods

Since 1984, nearly 70 percent of all homesteaders qualified as lower income families (earning less than 80 percent of the area median income). Minorities constituted 87 percent of homesteader families, and 29 percent of the households were headed by females.

The Urban Homesteading Program has produced many economic benefits for the city and its residents. Since 1984, every dollar of HUD funding has yielded an additional $1.37 rehabilitation investment by the homesteaders. Together, HUD and Milwaukee's homesteaders have pumped nearly $12 million into inner-city neighborhoods over the past 6 years.

Homeownership is a critical component of Milwaukee's plan to stabilize its inner-city neighborhoods, and officials believe this goal is being met largely through the success of the homesteading program. They point to the use of duplexes and commitment of city CDBG funds as important ingredients for providing homeownership to very low income families.

"The Urban Homesteading Program has created homeownership opportunities for people who ordinarily wouldn't have had them," says Commissioner Ricardo Dias of the Milwaukee Department of City Development. "In exchange, our homesteaders have become an integral part of the fabric of our neighborhoods and city."

Bryant Johnson says of the program, "This was our chance to get ahead. We now own a home in a safe neighborhood; it's our start toward building for the future."

Despite operating in transitional neighborhoods and with low-income buyers, the homesteading program boasts a success rate of nearly 95 percent. Bryant Johnson says, "I always recommend homesteading to our friends. It's clear the city believes in this program, and they believed in us."

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For a brief description of the Urban Homesteading Program requirements, see page 137 in Appendix I.

HUD-Held/HUD-Owned Properties

An Excellent Resource for Homeownership

Multifamily properties owned or acquired by local, State or Federal agencies through foreclosures or mortgage defaults are an excellent resource for affordable housing. Working directly with the residents or through nonprofit organizations, these agencies can create cooperatives that will serve lower income and first-time homebuyers.

Local initiatives using these housing resources can create affordable homeownership nationwide and make housing a stepping stone to independence.

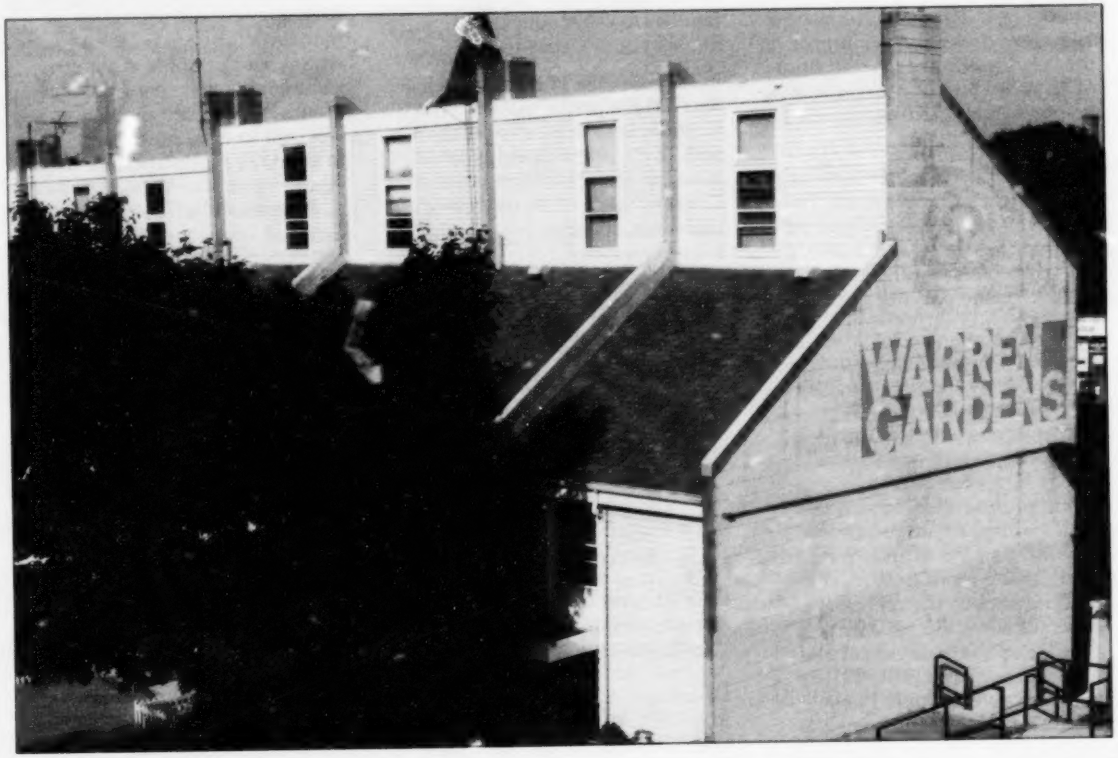
On August 24, 1983, Warren Gardens became Boston's first conversion of a HUD-held development into a resident-owned cooperative. The development is in the Washington Park Urban Renewal Area in Roxbury, Massachusetts, one of Boston's most blighted communities. The neighborhood is predominantly black and low income, with long-standing economic and social problems.

The city has seen four other such conversions including Methunion Manor, profiled on page 102. Becoming a co-op was not the first distinction in the life of Warren Gardens. In 1968, the year it was constructed, the development won a prestigious architectural award. It was lauded not only as handsome, but also as an innovative and important rethinking of subsidized housing design, in direct contrast to the high-density, highrise developments typical of older U.S. cities.

Since its conversion, Warren Gardens has provided its residents with low housing costs, an attractive environment with a sense of privacy and proximity to transportation and community facilities. In the past 6 years, the cooperative has experienced an occupancy rate of nearly 100 percent, with a total turnover of fewer than a dozen units.

Boston, Massachusetts

Warren Gardens: Renters Create a Co-op


WARREN GARDENS

Warren Gardens' 228 units are situated on 16 acres of land. The two- and three-story, wood-sided attached townhouses are clustered along winding streets and cul-de-sacs. Each house is clearly identifiable. There are 180 three-bedroom and 12 four-bedroom units suitable for families. On the ground floor of 35 of the houses are studio and one-bedroom apartments, mostly for elderly residents.

The hilly site allows for terracing and private entrances to all the units, 155 of which have private rear gardens. In addition to extensive landscaping, amenities include onsite parking and play areas for children.

Unable to find a conventional developer for the site, the city's planning and urban renewal agency approached Beacon Redevelopment Corporation (BRC). Founded in 1958 by a group of prominent local financiers and real estate professionals, BRC had the express purpose of attracting moderate-income families back to the center city. Beacon Redevelopment was persuaded to create subsidized housing using the HUD 221(d)(3) program, which offered low-interest mortgage financing.

Once Warren Gardens was under construction, Beacon Redevelopment set its managerial objectives: to operate according to proven practices of real estate management, and to avoid the problems of vandalism and rent arrearage familiar to other subsidized housing developments.

In August 1968 Warren Gardens' first 100 residents, mostly Roxbury residents, moved in, both to deter vandalism and to generate cash-flow. But Warren Gardens' difficulties continued. Rent delinquencies became the norm. Operating costs escalated with unexpected repairs necessitated by incomplete and poor workmanship. The rent schedule was set too low to adequately maintain the property. Resident screening, orientation and regulation were insufficient. Vandalism and misuse, together with decreasing maintenance, took their toll.

HUD Becomes the Owner

By 1971, over 60 families had moved or been evicted. The principal payments on the mortgage had not been made for over a year, and the development was in default. With the bankruptcy of Warren Gardens, Inc., repossession proceedings began in 1974. After 2 years' operation by a court-appointed overseer, HUD was awarded the property in October 1976.

HUD hired a new firm, L.E. Smith Management Associates, to manage Warren Gardens and restore and upgrade it before selling it. An increased management staff was better able to respond to resident requests and to keep the grounds clean. Emergency repairs were made and maintenance that had been deferred was done. The building exteriors were repainted for the first time in almost a decade. About half the refrigerators, ranges, water heaters, garbage disposals and kitchen cabinets were replaced.

L.E. Smith's site manager, Paul Chan, had a larger agenda than physical improvements. He saw an opportunity to turn Warren Gardens into a different kind of subsidized housing.

He began working with the fledgling Warren Gardens Residents Association, dividing the development into four districts, each with its own leader. "Paul used the possibility of ownership by residents to recruit more members," recalls Sheiry Smith, who would later become president of the group. "We understood that if we didn't take control soon, someone else would."

In 1978, Warren Gardens became one of four projects in Boston selected for HUD's Boston Regional Office Demonstration, part of a national study of owner-management models for financially failed, subsidized HUD-held developments. HUD hired consultants and management companies to work with residents to devise improvement programs and investigate such owner-management options as nonprofit sponsorship, cooperative ownership, condominium conversion and sale to a developer.

As part of the demonstration, Paul Chan conducted Saturday training workshops on ownership concepts, inspection of conditions, maintenance, budgeting and parliamentary procedures. For 2 months, Residents Association board members spent their weekends in training, then went door-to-door to bring their neighbors up to date on the Saturday training sessions.

Impressed with the cooperative ownership options, resident leaders visited other co-ops around Boston and studied those in areas outside the city. "We wanted to know how they became successful, how they got people to buy shares, what their bylaws looked like," Sheiry Smith says. "Anyone thinking of forming a co-op must talk with others who have done the same." An association of the presidents of other resident organizations participating in the HUD demonstration evolved. This association provided a forum for "shared information and clarification of rumors," as Smith describes it.

By 1980, when HUD funded a major contract to correct severe problems with soil erosion and make basic site improvements, the buildings were generally in good condition. In the same year, the Warren Gardens Residents Association was incorporated, and work toward resident ownership intensified. The officers of the association questioned, revised and approved reports and recommendations Paul Chan had made, then formally presented the ownership options to the entire association. Attendance was "near 100 percent," according to Betty Royston, who served as president of the board at the time of the conversion.

The decision to convert to a co-op was easily reached, and resident approval was virtually unanimous. All but two households joined the cooperative. As Sheiry Smith points out, "It was very inexpensive to purchase a share, and people would have found it difficult to find comparable housing locally. The vacancy rate in Boston was very low at the time."

HUD Provides Mortgage for Purchase

The Residents Association, which became the sponsoring organization for the Warren Gardens Housing Cooperative Company, filed a disposition plan with HUD in May 1981. After much negotiation, HUD agreed to sell the property to the co-op corporation for $964,000. As part of the agreement, the co-op would pay HUD an equity investment of $91,700 and HUD would provide a first-purchase money mortgage of $872,300 at 12-percent interest for 40 years. This equity portion of the purchase price was provided by subscription funds—the downpayments required of shareholders—which also covered other expenses such as consulting fees and transfer and closing costs. The total amount available through subscription funds was twice the equity figure, $183,400.

Each shareholder or co-op member would have the right to occupy a unit through a proprietary lease. The member household would pay a proportionate share of the monthly costs of operating the cooperative and have an equal vote in electing directors to administer the co-op's operation. Return on investment would be limited by specific provisions established by the corporation.

Greater Boston Community Development, Inc. (GBCD), a nonprofit corporation, provided technical assistance to Warren Gardens. Resident leaders note that Paul Chan and Robert Whittlesey of GBCD (recently renamed The Community Builders) were essential in putting together the details of the transaction. "With their help we did the numbers, negotiated the taxes and bargained down the price," says Jim Bradshaw, current president of the co-op board. The cooperative paid the nonprofit community development intermediary $50,000 for technical and legal assistance.

In addition to providing the mortgage, HUD agreed to guarantee Section 8 housing assistance payments to eligible families for 15 years. These subsidies, which 152 of the 227 households now use, mean that monthly payments will not exceed 30 percent of residents' incomes.

The co-op organizers and the HUD Regional Office made a conscious decision to keep downpayment requirements low, since the goal of the conversion was to prevent displacement and ensure that Warren Gardens would be accessible to people of modest means—in the future as well as at the time of conversion. Each shareholder had to pay 2 months' rent to join the cooperative. This meant $510 for a studio apartment, $600 for a one-bedroom unit, $850 for a three-bedroom townhouse and $950 for a four-bedroom townhouse. Previous security deposits were counted toward the requirement.

Families that found it difficult to raise additional funds received assistance from a revolving loan fund established with help from the Episcopal City Mission. The loan from the mission has been repaid in full by the co-op, which in turn has been repaid by almost all of the shareholders.

Windfall profits by co-op members are restricted by a resale formula that allows for return of the subscription price, plus a modest annual appreciation rate, plus a maximum reimbursement of $200 for board-approved improvements. (Since 1986, based on the resale formula, the value of subscription price accounts has risen between $51 and $95, depending on unit size.) The co-op has the first option to purchase the shares of departing members; if the option is not exercised, the members find buyers, who must be approved by the co-op's board.

Stability Comes to Warren Gardens

The cooperative has seen a total turnover of fewer than a dozen units in 6 years. Occupancy is easily kept at or near 100 percent. When management recently reviewed the unsolicited waiting list of 150 families, only one was found to still be eligible and available; so, despite the minimal turnover, applications are now being accepted. Among the resident selection criteria established by the co-op board are good credit standing, recommendations from two previous landlords and the requirement that anyone under age 18 must be in school or working.

Two elected boards are active at Warren Gardens: the co-op board and the residents board. The co-op board oversees the operation of the development, working closely with the management agent, L.E. Smith. Most of the 11 members have served several terms. The co-op board has a resident selection committee, a personnel panel and a grievance committee to mediate resident-management disagreements.

The residents board has 12 members and meets twice a year. It deals with social, political and fundraising activities. Membership on the two boards tends to overlap, with 10 people now serving on both.

The backgrounds of the members of the board vary; Sheiry Smith, a student at the time of the conversion, now is employed at the nearby community college; Jim Bradshaw works in the computer repair department of General Motors; Betty Royston is a teacher in the Boston public schools and a doctoral candidate. Most board members are women; only four men have served to date. The strong presence of women leaders at Warren Gardens reflects the makeup of the development; over 80 percent of the families are headed by females.

L.E. Smith has remained the management agent, providing continuity and a level of service that have proven strong assets in the development's viability. To stay abreast of maintenance and repair needs, the management firm conducts inspections twice a year.

Warren Gardens provides its residents with low housing costs, an attractive environment, and proximity to transportation and community facilities. Multifamily properties owned or acquired by local, State or Federal agencies through foreclosures or mortgage defaults are excellent sources of affordable housing.

A year after conversion, Paul Chan was succeeded as site manager by a resident of Warren Gardens he trained. She was succeeded in 1989 by her assistant onsite manager, Gail Hinds. In addition to Ms. Hinds, the full-time staff includes five grounds persons, a plumber and two assistants, a carpenter and two assistants and two office personnel. Most of the employees are Warren Gardens residents.

The co-op has a good working relationship with the local police precinct and meets periodically with police representatives to discuss community issues. Vandalism, such as occasional graffiti, is minimal at Warren Gardens.

In cooperation with HUD, the buildings were examined a few years ago to establish repair needs. A checklist with dollar values assigned to each item was drawn up and a program of improvements initiated. Repair estimates amounted to about $1.5 million. The work will be completed over several years; approximately one-third of it is now completed, primarily the reconstruction of retaining walls and new siding and roofs.

Fortunately, Warren Gardens' two reserve accounts (operating and replacement) into which monthly payments flow accrued substantial balances within a few years. It has been possible to finance several of the repairs through the operating account. The replacement account has been "virtually untouched," according to Jim Bradshaw. To complete all of the scheduled repairs, however, it is likely that a modest rise in monthly charges or a loan will be needed. Says Bradshaw, "We realize the property is getting older—and we have no intention of letting it fall apart."

Lessons Learned at Warren Gardens

Looking back on the conversion of Warren Gardens to a resident cooperative, participants offer a variety of thoughts. "There were two emotions when those papers were signed in 1983," recalls Florence Love, who was one of the signatories. "First, we felt secure. These are our own houses, for as long as we want to stay here. The other emotion was relief felt by board members, who were happy the effort was over."

Others reflect on the importance of Paul Chan and GBCD, and of the residents' coming together as a whole. "We succeeded because we had an incredible group, both from inside Warren Gardens and from outside, who worked together and remained intact throughout the process," says Sheiry Smith. "We started out believing we could operate a co-op. Low-income people make assumptions [that] they can't afford to operate a development, but we jump over serious hurdles by thinking positively."

Phil Salamone of HUD notes, "If residents are willing to become shareholders, and to stay involved, cooperatives produce a stable form of housing for low-income people. But co-ops are very fragile, especially during the early years when reserve accounts are low. As effective and committed as leaders are, they need to recognize that owning and operating this kind of housing is complicated and requires a high level of sophistication. And if they lose control, if the co-op defaults, there probably won't be a second chance."

Every cooperative is unique, Smith realizes, but she suggests that there are some basic rules: "Make sure you have a concerned, committed property manager. Make sure you have professional training, so you can identify and analyze problems and alternative solutions. And make sure you talk with anyone you can find who has gone through the same experience."

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For a brief description of the requirements for the use of HUD-held/HUD-owned properties, see page 138 in Appendix I.

The conversion of Methunion Manor to homeownership has quite a long history. Within the four brick buildings live families and individuals who spent 10 years talking, organizing, attending meetings and struggling to convert a subsidized housing structure into a cooperative they now own and manage themselves.

Methunion Manor's four, six-story brick buildings contain 149 units. One building contains ground-floor commercial space, and two apartments have become offices for management. The complex is located on Columbus Avenue in Boston's South End within walking distance of downtown.

When Methunion Manor was built in 1971, the neighborhood was designated as a Federal urban renewal area. The multiracial population was predominantly black and low income. Throughout the 1970s, however, the prospect of extensive public improvements nurtured private restoration of the neighborhood's classic bowfront townhouses. Rehabilitation was further fueled by the shortage of housing in Boston's more desirable residential areas; the South End's proximity to downtown and public transportation; the city's lenient tax policies toward the neighborhood; development of shops and hotels nearby; and the South End's reputation for harmonious social, racial and economic diversity.

By the end of the 1980s, virtually everyone moving into the South End was white and middle class. Rowhouses that 20 years earlier would have sold for $20,000 were fetching $200,000 in 1989. It was in this atmosphere that Methunion Manor residents created their cooperative for low- and moderate-income families.

Boston, Massachusetts

Methunion Manor: Perseverance Pays Off

METHUNION MANOR

Methunion Manor began life in 1971 as a 221(d)(3) project sponsored by the local Union United Methodist Church, from which it derived its name. The 221(d)(3) program helps low- and moderate-income families or families who are displaced by urban renewal, and the developers envisioned Methunion Manor as relocation housing for South End families. HUD supplied a low-interest mortgage to the nonprofit owners, the Columbus Avenue Housing Corporation.

Observers say the project faced problems from the very beginning. Engineering and construction quality was uneven. Higher than expected development costs left the Columbus Avenue Housing Corporation with a cash-flow problem, the units failed to rent quickly, rent collecting was spotty and the Columbus Avenue Housing Corporation fell behind on mortgage payments the first year.

In early 1975, Methunion Manor's sponsors defaulted on the loan, and HUD took over as mortgagee in possession. A local attorney was appointed receiver and manager. The Columbus Avenue Housing Corporation continued to hold title.

Regardless of its difficulties, Methunion Manor attracted and retained people with strong ties to the South End. Resident turnover was always low. By the early 1980s, two-thirds of the residents had lived there at least 5 years, and 40 percent had been occupants since the project opened.

Moreover, Methunion Manor residents evidenced a protective attitude toward their development. "People could drive by and see it was different from other subsidized housing," says Tracey Powell-Simpson, who moved in when she was 9 years old and construction was still underway. "It helped that there was a no-loitering policy in the front of the buildings. Kids washed the walls and swept the sidewalks. Outside, it was clean and neat; inside, you could expect the same."

The Quest for Ownership Begins

The day after occupants learned through a television newscast that HUD planned to sell Methunion Manor at auction, Adrian duCille, a resident, also heard about a meeting in nearby Roxbury concerning several other local HUD properties facing foreclosure. He attended the meeting with two other residents and was advised to bring at least 20 residents to a subsequent meeting. He actually brought more than 100, and the Methunion Manor Tenants Council was formed. A core group of about two dozen activists, led principally by duCille and Mary Manuel, monitored the possibility of foreclosure and fought for ownership for the next decade.

Supported by attorneys from the local legal aid organization, political leaders and the Black Housing Task Force, the Methunion Manor Tenants Council and the Columbus Avenue Housing Corporation began to press for improved living conditions and a moratorium on the sale of the property until they could buy it themselves.

The Tenants Council formed several committees and collected money to send representatives to Washington to discuss the possibility of ownership with the Massachusetts congressional delegation and with HUD. It presented a proposal to purchase Methunion Manor for $4.5 million. The proposal was not accepted, but the residents did influence passage of a national moratorium on foreclosing projects like Methunion Manor and testified before congressional hearings considering alternative solutions. In 1978, legislation was enacted that required HUD to ensure the continued low- and moderate-income status of subsidized, financially troubled projects, and to respond to residents' needs regarding disposition and operation.

That same year, as part of a national assessment, HUD launched the Boston Regional Office Demonstration, a 3-year program to explore the feasibility of resident involvement in the management, sale and ownership of HUD-held projects. Methunion Manor was one of the properties chosen to participate.

Changes Begin To Take Place

With the HUD Boston Regional Office's concurrence, the Tenants Council selected a new management company from nine that applied. A totally different tenant-management relationship ensued. "We were consulted about every aspect of running the property, from drafting criteria for housing management to setting priorities for improvements," says duCille. "HUD had put money into the project before, but for the first time, it began to show." Major repairs were made to the buildings' systems and viable maintenance and security programs were established. Rent collections improved significantly, reducing the amount in arrears from $22,000 to $4,000.

The new management company was charged with helping Methunion Manor implement some form of permanent resident control. The management and the Tenants Council met Monday evenings to sort through the disposition options: nonprofit sponsorship, cooperative ownership, condominium conversion and sale to an outside developer.

Over the next year and a half, Methunion Manor and the HUD Boston Regional Office became allies. But when Methunion Manor submitted a voluminous proposal for the property to be taken over by a resident-controlled nonprofit entity, it was rejected as unrealistic. "The plan requested tons of money for improvements after we had just completed extensive renovations," recounts Philip Salamone of the Regional Office. "The repair and operating budgets were huge, which meant project income needs—hence rents and subsidies—were huge." Both sides recall Salamone's exact words: "This is pie in the sky. If you can't come up with something better, you'll never own the property." He urged them to return quickly with another proposal, "based on data, not conjecture, and dealing reasonably with expectations for debt service and repairs."

Everyone knew a viable plan was needed quickly to preclude sale of the property at market value. The prospect of imminent private sale recurred incessantly.

The Cooperative Becomes a Reality

Changing policies in Washington in the early 1980s began to favor negotiated sale of troubled projects to tenant cooperatives; the concept made sense for Methunion Manor, and resident leaders and their legal aid attorneys decided to focus on that option.

With a $10,000 grant from the State's Community Economic Development Assistance Corporation and the services of a new housing development consultant, a streamlined, succinct proposal was ready in 1983. This one addressed all the issues, and local HUD staff members became the

Profile of a President

No one thing prepared Adrian duCille for his role in the conversion of Methunion Manor to a resident-owned cooperative or for his position as current president of the co-op's board.

In the mid-1970s, when he and other residents joined to fight the development's foreclosure and sale, he was a Medicaid social worker at the State employment office—fortuitously located just two blocks from the HUD Regional Office. He was also attending evening classes at Boston College, where he received his bachelor's degree in 1977. He had been active in political and union events most of his adult life—but he never anticipated a decade-long campaign when, in 1975, he helped organize the Methunion Manor Tenants Council.

He attributes the success of their efforts to "stubborn will on our part and the ability to focus on the big picture. We consciously tried to move away from petty problems and issues, and to put first the people who live here. You do what you do to get their attention—and that of your adversaries—but you stay fair and decent. You have to be a group to win, and that group has to be steadfast and fight like hell."

Now living in a sixth-floor apartment with his wife, Marian, duCille has been a Methunion Manor resident since 1971, when the development first opened. "Those steel doors," duCille says with a gesture, "are solid and secure; so are the buildings now. We can walk to downtown. From my apartment, I have an unobstructed view of the Prudential Tower, and at night we watch the twinkle of the city's lights.

"We like it here. We said to ourselves, 'Why give it up? We ought to buy it.' We knew it could be done—just not how. But over time the moves to make came naturally to us."

project's advocates and defenders for the next 2 years. They even persuaded one of Boston's oldest and most influential law firms to sit in on weekly meetings at Methunion Manor, largely on a pro bono basis, to draw up the cooperative's bylaws.

To expedite disposition, the Tenants Council made arrangements for the Columbus Avenue Housing Corporation to convey the deed to the property to HUD in lieu of foreclosure. The Tenants Council incorporated, elected its board of directors at a general meeting of residents and prepared to take over as the board of the future cooperative.

Meanwhile, the leaders were at work on another front. "We felt it was incumbent on us to present a united and financially responsible image," says Adrian duCille. Of the 149 households in Methunion Manor, 130 signed a petition indicating their interest in joining the cooperative. "Then we asked everyone to put $200 into an escrow account," duCille continues. "We wanted to prove we meant business—not begging." They later requested another $200. While some families could only manage $25, others offered $1,000. Eighty percent of the residents contributed some amount. The Tenants Council waited until they had collected almost $60,000, then told the Regional Office: "We have money in the bank."

The accomplishment served not only to impress HUD but also to solidify the perception that something real was happening. The Methunion Equity Account grew to $155,000; it is used for extraordinary expenses, such as the recent purchase of a $10,000 computer system.

Financial Arrangements Made for Purchase

HUD required 1 month's rent as a downpayment, but the Tenants Council opted for twice that. Thus, downpayments ranged from $792 for a one-bedroom apartment to $1,134 for a four-bedroom unit. All but 19 households agreed to join the cooperative. (Two have since joined, two have died or moved and the others have been permitted by the co-op board to continue in residence as renters.)

For subsidized renters, a downpayment of 2 months' rent can be hard to come by. "Even though we applied existing security deposits to the balance, most tenants did not have the whole 2 months' amount readily available," says Karen Miller, a resident since 1972 and now the management company's onsite representative. To remedy cash shortfalls, the cooperative bor-

Tracey Powell-Simpson and her family lived at Methunion Manor for several years before it became a cooperative. "The only reason we have a cooperative is that everyone pulled together," she says. "We always acted like we owned this place. It wasn't a project, it was family."

rowed $43,000 from the Episcopal City Mission for no-interest loans to residents. All of these loans were repaid, and the co-op closed out its obligation to the Episcopal City Mission with a final payment of $22,000 in 1988.

In the limited-equity cooperative model used for Methunion Manor, a corporate entity—the cooperative—buys the property and sells membership shares to residents. Each apartment is assessed a certain number of shares, depending on size. Shareholders have income tax advantages similar to those of conventional homeowners. Each apartment has an equal vote in the operation of the property.

A formula for limited equity appreciation serves to prevent windfall profits and protects the co-op as a low-income housing resource. If a shareholder moves out, the cooperative buys the membership, paying the original downpayment, plus a cost-of-living factor and up to one-half the expenses of improvements made with board approval (up to $500), less the cost to resell the unit and any outstanding charges. The HUD-cooperative agreement stipulates a means test for future shareholders and requires the corporation to use the property as rental or cooperative housing for 30 years.

The terms of the negotiated sale announced in the summer of 1984 reflect several considerations of paramount importance to the HUD Regional Office. "We made a conscious decision," says Phil Salamone, "to maintain and encourage an income mix because we think that helps a project's stability. Second, we sought to keep rents low to make the units accessible to families with very modest incomes."

HUD agreed to provide project-based Section 8 subsidies for all the units for 15 years, so that residents pay no more than 30 percent of their incomes as their monthly fees. Approximately two-thirds of the households use the subsidy. About 10 percent are on public welfare.

The Methunion Manor Cooperative Corporation purchased the property from HUD in October 1985 for $12,071. A condition of sale was that the co-op finance $521,735 of specified improvements, including roofs and boiler replacement, upgraded electrical wiring and interior repairs. The cooperative secured a 15-year loan at 14-percent interest from the National Cooperative Bank in Washington, D.C. Monthly payments on the loan were reduced in early 1990 because the co-op is ahead of its repayment schedule.

Training Helps Streamline the Co-op's Administration

An outside consultant conducted training workshops for board members and staff. Beginning with a self-assessment survey of the board's management, the 10 hours of workshops focused on ways to work together to run the cooperative and increase involvement of the general co-op membership. The training also covered such technical considerations as balance sheets and financial statements. Out of the sessions came a packet of materials for future board members.

The co-op's board meets once a month. It sets policy for the development and oversees the activities of the private management firm. Elections for the 11 positions are energetically contested. Adrian duCille is the current president. A committee system for social activities and co-op operational matters like resident selection evolved from the training.

Independent Managers Incorporated (IMI), the management firm retained after the conversion, has a full-time staff of eight to handle the day-to-day operations. The full-time staff includes the office manager and her assistant, four janitors and two maintenance persons. Three security guards and a grounds person work part time. Preference is given to Methunion Manor residents for all job openings and for contract projects such as bricklaying or electrical work. Half the full-time staff and all of the part-time employees live in the complex.

Many of Methunion Manor's administrative tasks involve both the management firm and the board. For example, both participate in establishing an annual budget, which must balance the cooperative income (i.e., rental payments and Section 8 subsidies) with operating costs. The process involves reviewing the previous year's expenses, then adding anticipated increases, averaging about 10 percent. Projections have corresponded closely with actual expenditures.

Another shared responsibility is evaluation of potential co-op residents. Management staff accepts and reviews applications, while board members conduct home visits and indepth interviews. The screening process is quite rigorous. It includes scrutiny of employment, credit and renting histories. While there is little turnover of residents, a waiting list of almost 200 is periodically reviewed to ensure it is current. There have been three evictions (two for nonpayment and one for drug dealing).

Creation of a limited equity cooperative meant "a decade of talking to people," as one resident leader phrased it. It required meetings every Monday night, more meetings to brief and persuade other residents, meetings with numerous political and civic leaders and, of course, meetings with HUD. It helped that leaders of the Tenants Council had understanding and lenient employers.

Residents cite unity as the critical factor that brought their hopes to fruition. "We couldn't have done it without a solid group," says duCille. "A 10-year struggle for ownership requires that just about everyone wants it and is determined to get it."

Tracey Powell-Simpson, a cooperative member, concurs: "The only reason we have a cooperative is that everyone pulled together. People like Adrian, Mary Manuel, my dad [who was the security guard for the complex during the transition] and others demanded something from us kids and everyone else. They demanded that we respect the property as our own, and that we respect each other. We always acted like we owned this place. It wasn't a project, it was a family. . . When people learn I live in the South End, they ask me, `Do you live in a project or an apartment?' I'm so proud when I answer, `Neither. I live in a cooperative.'"

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For a brief description of the requirements for the use of HUD-Held/HUD-Owned properties, see page 138 in Appendix I.

Homeownership Using Community Development Block Grant Funds

Community-Based Organizations Develop Affordable Housing

Community-based groups, working with nonprofit housing development organizations and local governments, can expand affordable housing opportunities in their neighborhoods. Through coordinated public and private efforts, housing initiatives suited to the area's lower income families may be designed and implemented with Community Development Block Grant funds.

Such joint ventures, capitalizing on local talents and funding, have made affordable housing—both for homeownership and rental—available in many communities across the country.

During the 1980s, Boston became one of the most expensive housing markets in the country. A strong economy more than doubled home prices. The median price for a single-family home is $180,000, while the median family income is $45,000 per year. Most starter homes and condominiums are priced above $100,000.

In response to this situation, some communities have begun to play an important role in providing affordable housing. Local building trade unions have joined their resources with city, State and Federal subsidies to create unique solutions to the affordable housing problem in Boston.

The following describes the Back of the Hill Condominiums development, one example of the successful results of this collaboration.

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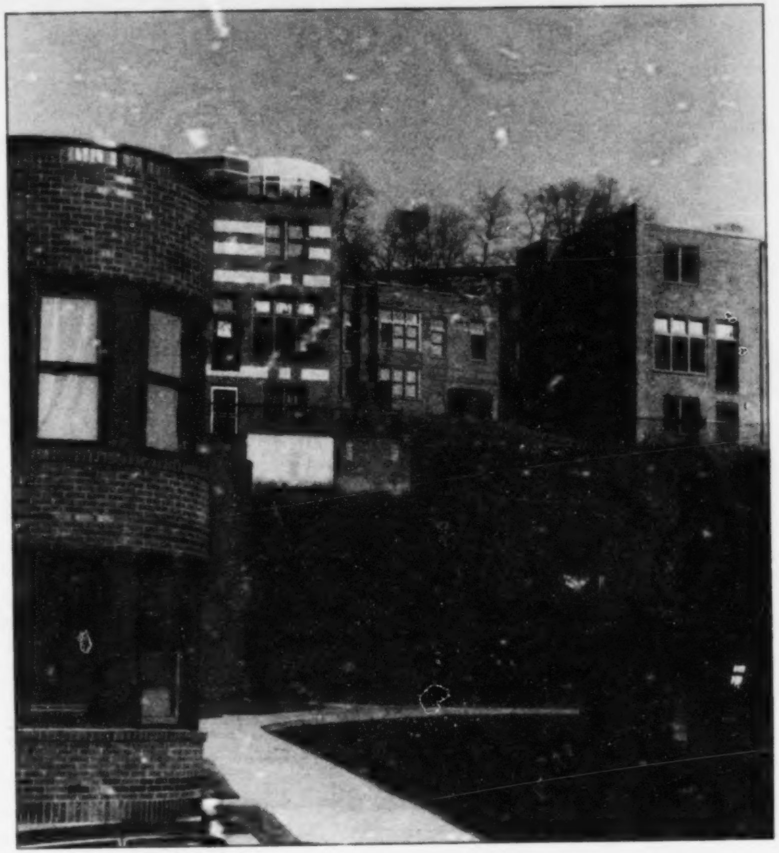
Boston, Massachusetts

Partnership Develops Affordable Housing



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Boston has always been a city known for its history and charm. More recently, it has also become known for its soaring housing costs. Boston has traditionally had low homeownership rates, but because of the dramatic increase in prices over the last 10 years, it now has one of the lowest homeownership rates in the Nation.

In 1985, the International Union of Bricklayers and Allied Crafts and the International Union of Laborers joined together to form the Bricklayers and Laborers Nonprofit Housing Company (known as "the Nonprofit"). The goal of the Nonprofit is to deliver well-designed, high-quality homes to communities in need of affordable housing.

According to Tom McIntyre, president and founder of the Nonprofit and international vice president of the Bricklayers and Allied Crafts Union, "We wanted to demonstrate that unions could be a force for good, and the best way for us to do that was to build affordable housing. We were born and raised in Boston's neighborhoods. In a sense, we had left the neighborhoods, and we decided we had to get back and help rebuild them."

The Nonprofit had completed projects similar to Back of the Hill in three Boston neighborhoods. In each case, the Nonprofit teamed with a neighborhood-based organization. For Back of the Hill, the Nonprofit, which has construction skills, political leverage and pension funds, teamed with the Back of the Hill Community Development Corporation (CDC), which was skilled in marketing, developing selection criteria and arranging neighborhood reviews. Through CDC, the development became eligible for Community Development Block Grant funds from the city and a Community Development Assistance Grant from the State, making affordable housing more feasible.

Back of the Hill Comes to Life

Back of the Hill Condominiums has 165 units on 11 acres on Mission Hill in Boston's Roxbury neighborhood. The development is located on the back of Mission Hill, facing away from downtown Boston, with a view of the Veterans Hospital and nearby suburban neighborhoods. It is on a major streetcar line that transports residents downtown in about 20 minutes. The condominiums are only a brief walk from the large employment base of the Harvard Medical School and hospital complex.

Back of the Hill was constructed on a vacant inner-city site that 10 years ago was slated for a hospital complex. The complex was blocked by citizens in the neighborhood. By the time the Nonprofit was interested in developing the site for affordable housing, the price of the land had risen to $2 million.

Because of the city's priority for affordable housing, it provided a significant portion of the land purchase price from its Linkage Fund. This fund was established by the city; developers of large commercial projects contribute to the fund as a requirement of the zoning process.

Community Support Is Essential to Success

The history of community activism in developing the site dictated that the Nonprofit work extensively with the city and neighborhood residents to create an acceptable plan. Although time consuming, this process resulted in a better development.

McIntyre acknowledged that although his membership knew how to build houses, it was less experienced with the neighborhood approval process, public subsidies and other such responsibilities. Meetings with the community members, particularly CDC, were fruitful. Says McIntyre, "Over the course of a year and a half, we learned a lot from them. They were very sophisticated."

Bill Fried of CDC said, "We reviewed project plans and urged the Nonprofit to increase the number of three-bedroom family units and make other changes. The development is now probably similar to one our organization would have built. It has owner occupancy, is built to a neighborhood rowhouse scale, has affordable units with resale restrictions and is economically and racially mixed. It is a very solid addition to the Mission Hill community."

Creative Financing Is Needed for Construction

Originally, the Nonprofit planned to build low-cost homes on city-contributed land by using union members' skills and leveraging pension funds. However, land for

Back of the Hill was very expensive, and site costs were unusually high because of construction problems associated with the steep hillside location. Back of the Hill required a complex financial arrangement involving mixed-income housing with multiple public subsidies and a myriad of financing sources.

The Nonprofit recognized the potential for tremendous financial leverage through the investment of the unions' pension funds. Although the Nonprofit did not control any pension fund money directly, its relationship with the unions gained the attention of private lenders who hoped to attract some pension fund investments. "When we come to the table with a bank," McIntyre said, "the pension funds of our unions may account for millions of dollars invested with that bank. With that kind of leverage, banks listen."

Through United States Trust Company, the Nonprofit was able to arrange an $8 million construction line of credit with a favorable interest rate. The loan was leveraged with a $4 million deposit from the Massachusetts Bay Transportation Authority (MBTA) Retirement Fund, the pension fund of the Carmen's Union (representing transportation workers for the MBTA).

With a long construction and marketing period anticipated for the project, interest cost on the construction loan was expected to mount. Even with the financing they had secured, the Nonprofit and CDC still needed some lower interest funds. They secured the money through Boston's Community Development Block Grant (CDBG) program, for which they were eligible because of the participation of CDC. The city granted a $6 million construction loan through its BUILD program, which is funded through the CDBG program. The loan was granted at 1-percent simple interest, which, according to city officials, helped reduce the size of the bank construction loan and saved the project nearly $900,000 in interest.

"The BUILD loan was invaluable. It infused cash and kept our interest costs low," said McIntyre. "The mayor was committed to the project. His support and these funds were critical. The project would not have occurred without that commitment."

Approximately $22 million was spent on constructing Back of the

"A Chance To Get a Piece of the Pie"

Alfreda Harris was born and raised in Roxbury, not far from the Back of the Hill Condominiums where she now lives. Over the years, she had searched for an opportunity to own a home. In most cases she didn't have enough income; in other cases she made too much money to qualify for the subsidy program involved.

"I was caught in the middle and getting frustrated and angry. My landlords were asking for more and more rent. In my 20 years of running recreation programs for the city, I had given so much. All I wanted was a chance to get my piece of the pie.

"Then I heard that some of the lottery winners had not qualified for financing, so I had another chance. When I got my notice, I was ecstatic," she said.

"I knew I would qualify for a loan because I have a good credit history and had been in my job for 20 years. It was the downpayment that was the challenge. Fortunately, my mother and uncle were able to help me with that."

Mrs. Harris moved into her new home in February 1989, with her 11-year-old grandson. "I picked one of the two-bedroom units on the lower part of the hill."

"I'm really truly happy here," Mrs. Harris said. "I would urge people to start setting something aside for a downpayment, even a little bit at a time, and to keep their credit rating good.

"You've got to be ready when your chance finally comes."

Alfreda Harris and her grandson have a home of their own because the Bricklayers and Laborers Nonprofit Housing Company worked with the local community development corporation and with the city, State and Federal agencies to create affordable housing in Boston.

Hill. Unit sales will yield approximately $19 million, and grants from the State and the city will close the gap with additional funding, including a $150,000 LEND grant—another city program funded through CDBG. The State granted $1 million for new streets and utilities through its Community Development Assistance Grant program.

A New Neighborhood Emerges

Back of the Hill consists of 165 one-, two- and three-bedroom units affordable for several income levels. Sixteen units were sold to the Boston Housing Authority as rental units for very low income residents under the State's public housing program (Chapter 705).

Thirty-three units were designated for sale through a lottery to potential homeowners considered to be low income in Boston. These units were priced from $69,500 to $87,500 and carried a State Homeownership Opportunity Program (HOP) interest subsidy, which reduced the initial loan interest rate to 5 percent and phases out the subsidy over 10 years.

Fifty-eight units were designated for sale through a lottery to moderate-income families. Prices for these units ranged from $89,500 to $107,500. Mortgages for these units were obtained through the Massachusetts Housing Finance Agency (MHFA).

The remaining 58 "market" units were priced from $110,000 to $149,900, well below the cost of comparable condominium units.

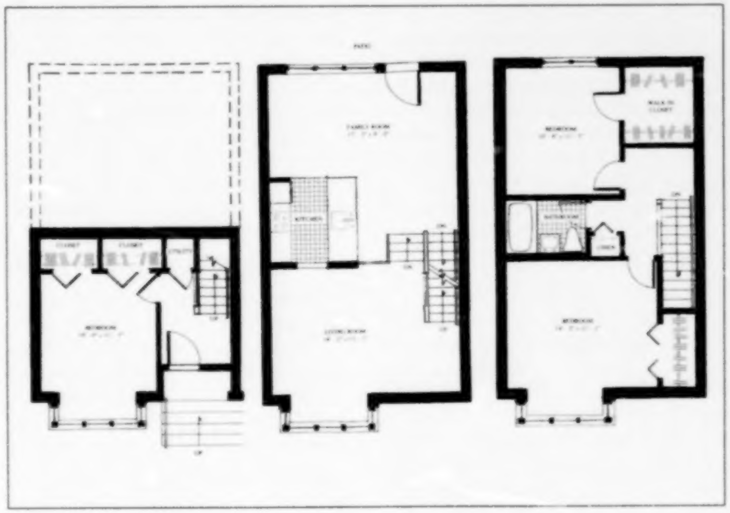
"The goal," explains Tom McIntyre, "was to produce as many affordable units as possible. If costs had permitted, all the units would have been priced for low- and moderate-income families. Unfortunately, the high construction and acquisition costs dictated that one-third of the units be sold at market price."

All the units reserved for low- and moderate-income families have resale restrictions that limit the appreciation of the price of the unit to 5 percent annually and give the city the right of first refusal to repurchase units for low- and moderate-income families for 50 years. City officials believe that this long-term guarantee of affordability justifies the city subsidies for the development.

CDC ran the lottery for the 91 low- and moderate-income units. Special preference categories were established for neighborhood residents and minorities. More than 600 applications were received for the units.

After approximately 14 months of marketing, Back of the Hill achieved a respectable sales record, considering the flat real estate market in Boston that had sent many condominium developments into foreclosure. Out of 165 units, only 28 remained after the

These floor plans show how the multilevel design at Back of the Hill adapts to the hilly terrain. The living space of the second and third floors is larger than that of the first floor.



initial marketing. Most of those remaining were market-rate units.

Dana Anderson, charged with selling the market-rate units, said the units sold fairly easily. "Most people coming here are already sold on the location, and the solidly built, attractive units sell themselves," Anderson said.

The challenge has been to help the buyers qualify for financing. Almost 60 potential buyers in the various income categories had to drop out because they could not qualify for financing. Typical downpayment requirements and underwriting criteria made it difficult for them to qualify.

According to Tom McIntyre, "Many buyers were paying more in rent than they would for a mortgage, but the banks' traditional lending criteria just don't seem to fit today's housing market in Boston, where most people have to pay more than 28 to 30 percent of their income for housing. If people have been paying more rent for years than they would pay to own, the bank should take that into account."

After losing a number of potential buyers, the Nonprofit approached several banks about establishing a special loan program. The Bank of New England responded with a first-time buyers program that provided a loan with only 5 percent down, reduced costs and lenient underwriting criteria. Sales accelerated in response to the new loan package, but downpayments continue to be an obstacle for first-time homebuyers.

Condominiums Reflect Union Pride

The construction of Back of the Hill reflects the pride of the bricklayers' and laborers' trades. The townhouses are solid masonry construction in colorful, richly textured brick, creating a mosaic that distinguishes the neighborhood. Each unit's style has a name such as Stretcher, Shiner, Rowlock, Soldier, Sailor and Header. These represent the mason's name for a brick's position in the structure.

The architectural design and solid construction have yielded not only attractive but also efficient units. Each has a separate entrance and 8-inch concrete-block party walls between the units. Multiple-level design separates living areas, and many units have walk-in closets in the bedrooms and basement storage areas. Eleven-foot ceilings and open kitchens and living rooms create a sense of spaciousness. Large windows showcase the dramatic hillside views of sunsets, and patios provide private outdoor space.

The design also incorporates many cost-saving features. The rowhouse configuration is cost- and energy-efficient, rooms are generally modest in size and the units have only one bathroom.

"Henry Kaiser built the `poor man's car,'" said McIntyre, "but nobody bought it because no one wanted to be perceived as poor. We wanted to build affordable homes that look as good and are as good as higher priced housing."

"I love my home—the different levels, the storage space and the solid construction," said Randy, an owner of a three-bedroom condominium at Back of the Hill. "A few weeks ago, I had 40 people here. It didn't seem crowded and everyone was so impressed."

Randy and her two daughters had lived in several apartments on Mission Hill, moving twice because of escalating rent. Although she was turned down by the bank five times before she was approved for a mortgage, she feels her perseverance was worth it. "I would urge others to be persistent. Like pregnancy and childbirth, it's uncomfortable, but when it's over you have something really beautiful and you forget the pain," comments Randy.

Back of the Hill has established itself as an economically and racially mixed development as diverse as the general population of Mission Hill. Very low income renters as well as moderate and upper income homeowners live there. The racial balance is about one-third white, one-third black and Hispanic and one-third Asian.

Back of the Hill Is an Example of Public/Private Cooperation

The Back of the Hill Condominiums serve as an example of how the private and public sectors can work together to solve pressing housing problems.

"It was a good investment for union pension funds and the banks," McIntyre said. "It created

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jobs for our members and provided affordable housing and homeownership for neighborhood residents. And, it will yield additional tax revenue to the city. Everyone benefits. We believe that cities and unions should be working together to build Back of the Hills all over this country," said McIntyre.

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For a brief description of the requirements for the use of Community Development Block Grant funds, see page 139 in Appendix I.

Cleveland, Ohio

Commitment and Staying Power

The Cleveland Housing Network (CHN), consisting of nine neighborhood groups in Cleveland's toughest neighborhoods, operates the Nation's largest and oldest lease-purchase programs. CHN was founded in 1981, but one member, Famicos Foundation, began a lease-purchase program in 1970 and has helped over 600 families gain affordable homeownership.

Between 1970 and 1981, Famicos Foundation rehabilitated 120 vacant houses and entered into lease-purchase agreements with families earning $11,000 or less. The lease payment, based on the foundation's initial investment, was formulated to result in a zero balance at the end of 15 years, when the family could exercise an option to take title. Twenty families have taken title, and 10 will do so during 1990.

Famicos and five other neighborhood groups formed CHN to centralize financing, construction and property management functions. Each group locates, acquires and protects vacant properties; prepares cost estimates and negotiates purchase; selects contractors and monitors rehabilitation; selects and qualifies residents and manages lease agreements.

CHN affords members substantial economies of scale and maximum leverage of resources. They can buy and rehabilitate vacant houses for about $20,000 each, using a blend of public and private subsidies, sweat equity and volunteer and professional staff support. Approximately 420 houses have been rehabilitated since 1981.

CHN's original financing came from Cleveland's Community Development Block Grant (CDBG) Program. Two options were offered to prospective purchasers: (1) lease a house with a HUD Section 8 rental subsidy (to be relinquished if a purchase option is signed), with CHN responsible for all maintenance; or (2) sign a 15-year lease with no subsidy (an option to buy could be exercised after 5 years) and be responsible for maintenance. In both cases, homebuyers found their own financing.

In 1987, with CDBG funds decreasing and alternative financing needed, CHN joined the Enterprise Social Investment Corporation and Cleveland Tomorrow (composed of the chief executive officers of the city's 42 largest corporations) to form the Cleveland Housing Partnership (CHP). Taking advantage of the low-income housing tax credit, CHP forms limited partnerships that rehabilitate lease-purchase houses and enables CHN to offer housing with 5-year rent subsidies and a 15-year lease period to families with incomes below $11,000. CHP has generated over $2 million for renovation, and CHN's production has tripled.

Another financing option, the Fannie Mae short-term lease program, serves families with incomes of $14,000 to $28,000. Under this arrangement, CHN buys and rehabilitates the property with CDBG funds. A local bank then gives CHN an assumable first mortgage that Fannie Mae simultaneously purchases from the bank. The house is leased with a 3-year option to purchase and assume the first mortgage.

These financing arrangements have enabled CHN to charge no more than $180 per month during the lease period. Except for the Fannie Mae program, none of the arrangements is specifically designed for lease-purchase. Those with rent subsidies prohibit outright sales, while those with tax credits require a long lease period. However, they can be used to meet urgent needs for affordable housing that can lead to homeownership.

CHN's lease-purchase program, with its workable approach to homeownership using public-private partnerships, has become an institution in Cleveland.

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For a brief description of the requirements for the use of Community Development Block Grant funds, see page 139 in Appendix I.

Note: Material for this feature was taken, with permission, from *Lessons of Enterprise—Lease-Purchase: One Road to Homeownership*, an occasional publication of the Enterprise Foundation, 505 American City Building, Columbia, MD 21044.

San Francisco is grappling with perhaps the most severe housing affordability problems in the Nation. To meet the challenge, the city has successfully used Community Development Block Grants (CDBG) to develop low- and moderate-income housing.

A nonprofit corporation, the Bay Area Residential Investment and Development Group (BRIDGE), has participated in the production of 3,600 units of ownership and rental housing in and around San Francisco. A number of the units were supported with CDBG funds. Many of the rental units are affordable for families with incomes between $12,000 and $25,000. Homeownership units are affordable to those within a slightly higher income range.

Holloway Terrace is an example of the successful affordable housing developments undertaken by BRIDGE using CDBG funds. In each case, BRIDGE joins a neighborhood nonprofit corporation to gain local support for the project. At Holloway Terrace, CDBG funds were used to acquire property and pay revenue bond issue points and predevelopment costs so that the sale price was affordable to low- and moderate-income buyers.

BRIDGE successfully combines housing know-how with support from the city, the private sector and local community organizations.

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San Francisco, California

BRIDGEing the Affordable Housing Gap

The city of San Francisco is unique in its beauty, charm, history—and its high housing costs. The cost of housing has soared in the last several years, appreciating 30 percent in 1989 alone, while personal income has increased much more slowly. The median family income is $36,000, and the median sale price of a two-bedroom house is $279,065. Rental costs are also high. The median advertised rent is $895 per month for a two-bedroom apartment and $695 for a one-bedroom. Under current conditions, 90 percent of San Francisco's renters cannot afford to purchase a home.

The city is very concerned about the lack of affordable housing and the detrimental economic impact it will have on business and the city in the future. The Bay Area's housing affordability crisis is making it increasingly difficult for businesses to recruit for lower wage positions.

To meet the challenge of high housing costs, the city has been increasingly successful in encouraging neighborhood and regional nonprofit corporations to build affordable housing. In addition to offering the use of CDBG money for land purchase and predevelopment costs, the city provides city-owned land at a nominal cost, sells tax-exempt revenue bonds to finance mortgages below the market rate and provides mortgage assistance to low-income homeowners.

BRIDGE Is Born To Help

BRIDGE is a nonprofit, tax-exempt 501(3)(c) public benefit corporation focusing on the development of affordable housing. It was created in 1983 by I. Donald Terner, former associate dean at the University of California at Berkeley and director of housing and community development for the State of California; and Alan Stein, former California secretary of business and transportation, who is now a partner in Montgomery Securities in San Francisco.

BRIDGE has participated in the production of ownership and rental housing valued at over $300 million in the Bay Area. Approximately 40 percent of BRIDGE units are priced substantially below market values.

BRIDGE has won numerous awards for the quality and design of its developments, including the 1988 Urban Land Institute Award for Excellence as "the best example of affordable housing in the Nation." It was the first nonprofit to appear in *Builder Magazine*'s annual survey and was ranked the 125th largest developer in the Nation. BRIDGE has a 17-person professional and clerical staff in its central organization and 3 subsidiaries.

BRIDGE is governed by a distinguished board of directors made up of business leaders, elected and appointed officials and people active in building and real estate. Many of them were also members of a 1981 Housing Task Force established to find a solution to the Bay Area's emerging housing problems. The nonprofit's ability to provide below-market rentals and occupant-owned properties stems from savvy development and financing skills and heavy financial and management backing from Bay Area businesses hard hit by the housing crisis.

Trust Fund Makes Development Possible

In addition to its board, BRIDGE has a campaign committee composed of top executives from 18 Bay Area corporations and organizations. The committee has raised $5 million in tax deductible contributions from corporations and foundations for the BRIDGE Trust Fund. The money has been leveraged to 8 to 10 times its cash value and BRIDGE hopes to increase the fund's worth to $10 million in the next several years.

The trust fund is used in several ways. It may become operating capital until a development is sold, at which time it is returned to the fund to become venture capital for predevelopment costs. It may become equity capital to cover the gap between the total development costs and the financing available from lenders. It may also be used to increase affordability by lowering monthly mortgage/rent payments.

According to Gordon McKay, HUD director of community planning and development for Region IX, "It is difficult to make CDBG work with homeownership in San Francisco. The housing development prices are high, and a deep subsidy is usually required to deliver housing that low- and moderate-income families can afford." Needless to say, the BRIDGE Trust Fund is essential to BRIDGE's development plans.

Development Is Attractive Addition to Neighborhood

In 1983, BRIDGE joined in a partnership with the Housing Conservation and Development Corporation (HCDC), a neighborhood nonprofit corporation located in the Ingleside neighborhood, to begin development of Holloway Terrace. Ingleside was built between the 1920s and 1940s. Most of the homes are two-bedroom, two-story attached stucco houses with garages and rear yards. The neighborhood is predominantly single-family properties and has a 60 to 70 percent homeownership rate.

The site for Holloway Terrace was the grounds of Farragut School, closed for many years. In California, surplus public properties must be offered first to public agencies and then to nonprofits at market rate before they can be sold on the private market.

A high-density Section 8 housing assistance subsidy apartment development originally proposed for the site was blocked by Ingleside residents.

In 1982, the city designated HCDC as the development sponsor. HCDC was a 10-year-old organization that was active in housing rehabilitation but was not an experienced developer. HCDC was selected because of its neighborhood credibility, but it was not able to move the project forward during the first year.

The mayor wanted affordable housing developed on the site and approached BRIDGE about joining HCDC in developing the project. A Memorandum of Understanding between the two gave HCDC the lead role in designing Holloway Terrace and presenting the plans to the neighborhood and the City Planning Commission. BRIDGE was to be responsible for the development work.

For the development to work financially, its density had to be twice as high as the surrounding neighborhood. BRIDGE and HCDC worked out a compromise with the neighborhood to build 42 family units. They also determined that a community center should be built on the site. The process of forming the partnership, designing the project and gaining both neighborhood and city approval took about a year.

The award-winning Holloway Terrace design is attractive and blends well with the established homes in the neighborhood. The townhouses have white stucco exteriors and tile roofs and are clustered around cul-de-sacs. Each unit has two or three bedrooms, two baths, a fireplace, patio and attached garage. Nine units were potentially convertible for handicapped use. (Two were sold to handicapped households, but neither household was mobility-impaired.)

The townhouses are individually owned as condominiums, a type of ownership common in the Bay Area and for which financing is relatively easy to obtain. The condominium association makes decisions on maintaining and improving common property.

Potential Homeowners Stand in Line Overnight

Low-key marketing for Holloway Terrace began in 1985, with the primary focus on neighborhood

The Walton Family Achieves the American Dream

Gayle Walton is a dynamic and articulate homeowner at Holloway Terrace who has been president of the homeowners association for the past 2 years.

"I grew up in this neighborhood just 8 blocks from here. My mother still lives in the neighborhood and my daughter goes to school a block away from the house."

Ms. Walton lives in a three-bedroom townhouse with her daughter Monique, who is 12, Ms. Walton's sister and her baby. She has been successful in her career and now manages a bank credit card center.

"I love being a homeowner. This house enables me to live the American Dream. I beat the odds," said Gayle. "The design of the house and the development make a nice family community," according to Ms. Walton. "Everyone looks out for each other."

Ms. Walton had been renting a house in nearby Daly City. Initially, the mortgage payments at Holloway Terrace were $200 more per month than the rent, but now the payments would be equal.

"I like being a homeowner for the tax advantages and for the sense of ownership," she said, "It's something that I own and can leave for my child."

residents. Notices were distributed through churches and neighborhood organizations. The response was overwhelming. More than 500 families expressed interest in the units and many stood in line overnight to sign up.

Applicants eligible to purchase had to be first-time homebuyers, have a minimum income of $22,000 and a $200 application fee. The sale prices were set at $88,500 for a two-bedroom unit and $98,500 for a three-bedroom. Buyers were required to make a 5-percent downpayment.

BRIDGE sponsored a workshop for potential homeowners, which included a discussion of the loan program and financing. Advice was offered on cleaning up credit histories, filling out loan applications and planning homeownership budgets. A marketing company retained by BRIDGE also provided organizational and condominium management training to the board of directors of the homeowners association.

Eighteen units were sold to families considered to be low-income buyers in San Francisco, 18 to moderate-income buyers and 6 at market rate. The racial mix of Holloway Terrace reflects the Ingleside area: approximately 50 percent of the residents are black, about 30 percent are white, the rest are Asian. About half of the buyers were from the immediate neighborhood.

"Being a homeowner has had a big impact on our lives," said Eva Cook. Eva and Jack Cook are a retired couple who were selected for the last available unit. "I like being a homeowner much better than being a renter," Eva said. "Our costs are under control while the rents keep going up in San Francisco."

The Cooks had been living in an apartment in the neighborhood when they heard about Holloway Terrace at a Gray Panthers meeting. "Our new house is better quality than the apartment and has twice as much space," according to Eva.

HCDC, BRIDGE and the City Pull the Finances Together

In addition to bringing neighborhood credibility to the project, HCDC, as a grantee of the city, brought $420,000 of CDBG funds to help lower development costs. Of this money, $126,000 was used to acquire the property, $148,000 to pay for bond issue points, $50,000 for predevelopment costs and $96,000 for building the community center. As part of an agreement with the neighborhood, the Holloway Terrace Homeowners Association contributed an additional $35,000 for the community center.

Holloway Terrace condominiums cost approximately $90,000 per unit to build, making the total development costs approximately $4 million. Construction financing of $3.7 million was provided by

BRIDGE, the developer of the award-winning Holloway Terrace condominiums, combined housing know-how with support from the city, the private sector and community organizations to make the units affordable to low- and moderate-income buyers.

Wells Fargo Bank through a loan to HCDC. BRIDGE arranged the financing and asked the bank to make the loan to a locally based nonprofit organization.

City Programs Keep Mortgages Affordable

The city helped finance the purchases at Holloway Terrace by passing a tax-exempt revenue bond issue that established a Mortgage Assistance Trust for below-market interest rates.

The city reserved $3.7 million of the revenue bond for first-time homebuyers at Holloway Terrace, and charged the Holloway Terrace project points equal to 4 percent of the $3.7 million, or $148,000. CDBG funds were used to pay the points. Underwriting criteria included:

- Verified income.
- Verified source of downpayment and closing costs.
- Housing expenses not more than 33 percent of verified gross income.

The loans made with revenue bonds were underwritten and serviced by a private lender under contract with the city. The loan interest rate was 10-3/4 percent with a 30-year term.

Under a mortgage assistance program available for buyers with annual incomes up to $37,125, the city uses funds from the revenue bonds to fill the gap between an affordable amount for the family and the mortgage amount. The payments reduce the borrower's share of the mortgage to 33 percent of the family's gross income.

As the family's income rises, the mortgage assistance payment decreases until the gap between household ability to pay and the mortgage is less than $25 a month. In Holloway Terrace, a low-income homebuyer pays 5 percent as downpayment and receives a $4,000 mortgage assistance payment during the first year. If the buyer's income increases, the subsequent years' assistance payments decrease accordingly.

The assistance payments must be repaid if the unit is sold or rented within 30 years of the date of the first assistance payment. The amount of repayment is the lesser of the total amount received plus interest or 50 percent of the net appreciation of the unit.

There have been no defaults on loans. Several units have been resold, but the city has retained them for moderate-income homeowners.

The city determined that the market value of the Holloway Terrace units was $110,000, based on a bank appraisal, and took a deferred $20,000 second mortgage (land lien) on each unit, based on the market value.

Under terms of the second mortgage, the city receives the second mortgage payment at the time of resale of the unit with 6 percent interest and a 30-year term. Upon sale of the unit, the seller must repay the land lien plus interest. Interest is defined as the lesser of the accrued interest on the lien at 6 percent or 20 percent of the net appreciation of the unit value.

The city has the right of first refusal if the unit is offered for sale and it can match a potential buyer's offer. The seller must notify the city within 10 days of receiving an offer for the unit. The city then has 30 days to submit a contract to purchase the unit. If the city chooses to purchase the unit, it must complete the purchase within 60 days. The second mortgage may be rolled over if the new buyer has a low or moderate income.

Resale Restrictions Protect Homeowners

Affordable homeownership developments in San Francisco feature equity sharing to keep the units available to low- and moderate-income families. The city planned for a 3-percent yearly appreciation rate for Holloway Terrace. Housing in San Francisco has appreciated at a much higher rate, and units are worth at least twice as much as the 1985 sale prices. As a result, the city has tightened provisions relating to appreciation of new developments. At a minimum, when units in developments built after Holloway Terrace are sold, the seller receives the downpayment with interest and the value of capital improvements.

Holloway Is an Example for Years To Come

Holloway Terrace provided desperately needed affordable housing to the Ingleside community. It also set standards of quality for future projects.

The development made homeownership possible for 36 households that otherwise could not afford to own a home in San Francisco. Nearly half the residents have incomes below the area's

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median, exceeding the original goal of one-third below the median. Full occupancy was accomplished in 3 months. Holloway Terrace generated $3.7 million in mortgage investment and also inspired a general neighborhood improvement.

Holloway Terrace Offers Lessons to Others

The solutions San Francisco and BRIDGE worked out in Holloway Terrace to meet the city's severe affordability problems can also work in other cities.

City leaders were an integral part of the development process. The Mayor's Office of Housing helped bring BRIDGE and HCDC together. Tax-exempt, single-family revenue bonds and the CDBG funds used for land acquisition and predevelopment costs were keys to the affordability of the project.

The city learned a lesson with Holloway Terrace on controlling equity appreciation to keep the units affordable for low- and moderate-income families.

Joe LaTorre, deputy director of the Mayor's Office of Housing, agrees that Holloway Terrace is an important development for San Francisco, "but it doesn't come close to meeting the need. The city needs to combine the model elements that were present in Holloway Terrace to produce more affordable housing." These model elements are:

- Substantial public commitment on the land write down and points payment.
- Project design and execution that are compatible with the neighborhood.
- Involvement of a community-based nonprofit corporation, such as BRIDGE.

Mr. LaTorre says that "a nonprofit like BRIDGE is essential. The city can't do these kinds of projects without their expertise. They take the city's goal of building affordable housing as their goal."

BRIDGE's plan of action for developing affordable housing includes:

- Lowering housing costs by using land donated by individuals or corporations or public land that can be obtained at lower prices.
- Targeting sites where density can be increased.
- Forming a partnership with the city and neighborhood-based nonprofits wherever possible and, on very large projects, forming a partnership with a for-profit developer to obtain financing.
- Involving the neighborhood residents early and identifying neighborhood groups and neighborhood spokespersons.

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For a brief description of the requirements for the use of Community Development Block Grant funds, see page 139 in Appendix I.

Nehemiah Housing Opportunity Program

Public-Private Partnerships Can Be Key to Affordable Homeownership

Local involvement can be a key ingredient in homeownership programs. Since community organizations and residents know their needs and problems better than anyone else, their participation in the development of solutions will help to assure acceptable and workable strategies.

HUD's Nehemiah Housing Opportunity Program targets households earning up to 115 percent of an area's median income. While it is Administration policy that scarce Federal housing funds should be targeted to those most in need rather than those above median income, the Nehemiah program nonetheless demonstrates that nonprofit and for-profit organizations, community groups and public agencies can meet the challenges of providing housing opportunities, creating jobs and reviving neighborhoods.

Nehemiah was a Jewish leader who supervised the rebuilding of Jerusalem's walls in biblical times. Today, a joint venture between two committed organizations is well on its way to rebuilding a stricken neighborhood. The venture unites the Enterprise Foundation, a nonprofit organization recognized for its ability to develop low-cost housing for low-income people, and Baltimoreans United in Leadership Development (BUILD), a community-based organization.

These two well-known organizations have formed Enterprise-Nehemiah Development Corporation to help revitalize Baltimore's Penn North and Sandtown-Winchester communities. Using nearly $21 million from the city, the State, religious organizations, the private sector and HUD's Nehemiah Housing Opportunity Program, the Enterprise-Nehemiah Development Corporation is making homeownership available to low- and very low income families in two of Baltimore's most physically and economically destitute neighborhoods.

Groundbreaking for the 283 new units and rehabilitation of 17 others was held March 1990; occupancy is expected later in the year or early 1991.

Baltimore, Maryland

Community Activism Makes a Difference

BUILD is a multiracial, ecumenical citywide group of 45 religious institutions and three unions. It was organized in 1978 to help low-income, working and middle-class families and communities reclaim their troubled neighborhoods. BUILD began working to revitalize Penn North and Sandtown-Winchester 4 years before HUD announced the Nehemiah Grants Program in 1988.

In 1986, BUILD convinced both mayoral candidates to add BUILD's agenda to their campaign platforms. When Kurt Schmoke won the election, he fulfilled his pledge of support by approving $12 million to help rebuild Penn North and Sandtown-Winchester. Next, BUILD obtained $2.2 million from seven local religious denominations with a commitment to finance construction in the area. It also began negotiating with the Enterprise Foundation, an organization founded in Baltimore in 1982 by nationally recognized developer James Rouse and his wife, Patty. The Enterprise Foundation's mission is to provide low-income people with decent and affordable housing.

Once an agreement between BUILD and the Enterprise Foundation was ironed out, the Enterprise-Nehemiah Development Corporation (ENDC) was born. ENDC unites housing developers with community-based activists in an effort to make homeownership more accessible for low-income families, using funds from HUD's Nehemiah Housing Opportunity Program.

Economically Depressed Community Needs Help

The neighborhoods of Penn North and Sandtown-Winchester are economically depressed. The median income falls far below 80 percent of Baltimore's median income of $18,000. Penn North's median income is 44 percent below the city's median; Sandtown-Winchester's is 37 percent below.

Further, the average 1980 property assessment was only 36 percent of the citywide average. The average sale price for homes was lower than the assessed value, strongly suggesting a community in decline.

Vacant land is increasing; it now ranks second to the amount of residential land. Since 1980, 301 units have been demolished, and another 181 units have been lost to fire and vandalism. Currently, 10 percent of the standing units are vacant.

With increasing vacant land, declining property values and a growing crime rate, the Penn North and Sandtown-Winchester neighborhoods offer few incentives for residential and commercial redevelopment.

Enterprise-Nehemiah Development Corporation Has Four Goals

ENDC seeks to reclaim the Penn North and Sandtown-Winchester communities through a well-coordinated plan to improve the neighborhoods' quality of life. Specific goals include:

- Increasing residential stability through homeownership opportunities.
- Expanding commercial development.
- Eliminating vacant land that currently functions as an open-air drug market.
- Deepening community involvement and awareness.

The joint venture stresses residential stability through homeownership. Organizers hope that ENDC's efforts, combined with the community-based interest they generate, will plant a seed for neighborhood revitalization.

ENDC draws on the Enterprise Foundation's previous successes in promoting homeownership in other Baltimore neighborhoods such as Franklin Terrace, Washington Place, Homestead Place and Oliver Terrace. In these housing developments, 171 units were sold to low- and moderate-income Baltimoreans. The demand for additional affordable homeownership is high; Enterprise's waiting list for these previously named developments is 500 names long.

ENDC's chances for success are heightened because the Enterprise Foundation's other homeownership properties have sold quickly in Baltimore, and because of the community's involvement and excitement about the project.

Program Management Stresses Neighborhood Involvement

ENDC functions with a five-member board of directors—three members from the Enterprise Foundation and two from BUILD. From the beginning, the board has taken great care to work closely with community residents. At each step of the process it has involved members of the Penn North Community Association and the Sandtown-Winchester Improvement Association. For instance, before the recently formalized townhouse design was submitted to the city of Baltimore planning officials, it was first reviewed and approved by the two community associations.

The board of directors feels its objectives cannot be realized without neighborhood involvement in the project. This approach helps establish adequate, community-based social forces to sustain the neighborhood's recovery. Throughout the process, resident involvement will be the key to the project's success.

Community leaders believe that the addition of 300 owner-occupied homes in Penn North and Sandtown-Winchester will encourage expansion of the commercial corridor along the neighborhood's Pennsylvania Avenue. They also hope the two subway stops planned for the area will encourage a resurgence of commercial investment.

Neighborhood stability will be further strengthened after ENDC demolishes an abandoned bakery as well as 200 vacant houses, many now serving as drug houses. This action will free the site for redevelopment and eliminate blighted structures.

City Sells the Property for $1

ENDC purchased 17 buildings for $1 each from the city of Baltimore. Slated to be rehabilitated into townhouses, these units were chosen to keep the neighborhood intact. The group also purchased vacant land from the city for $1 and will build 283 additional houses on the land.

Enterprise Construction Corporation, an affiliate of the Enterprise Foundation, will use modular construction to build the 283 townhouses, each containing three bedrooms and two bathrooms and having approximately 1,100 square feet of living space.

"This Development Lifts the Spirit and Soul . . ."

Frank Sewell knows the Winchester neighborhood very well. For the last 42 years, he has lived in the vicinity and has been an active member of St. Peter Claver Church, which is located in the heart of the area Enterprise-Nehemiah is renovating. He believes the Enterprise-Nehemiah redevelopment project is "definitely the most fantastic project yet!"

A founding member of BUILD in 1978, Mr. Sewell explains that BUILD worked hard to establish stable rents and improve sanitary conditions in the area. As long as he remembers, abandoned homes and businesses have been a part of Penn North and Sandtown-Winchester. "The Enterprise-Nehemiah program will get rid of the `scabs' [abandoned buildings]. It will take care of all the vacancies . . . and when you build new homes, it's good for the entire neighborhood. It gives residents an incentive to do better."

According to Mr. Sewell, public transportation has improved in recent years, but the two proposed subway stops will be a real boost to the area, as will the expected new businesses, stores and health care facilities.

Members of the Penn North and Sandtown-Winchester neighborhoods are excited about the coming changes. Mr. Sewell reports, "Any kind of improvement affects the entire neighborhood. . . . A church can't do it. A school can't do it. It takes a whole community working together."

Community support is indeed very much alive and strong. More than 100 volunteers have signed up at local information and roundup meetings to help in any way they can. Some volunteers are even going door-to-door to educate their neighbors about homeownership opportunities. Support from local law enforcement agencies exists as well.

Frank Sewell thinks that most residents are well informed about the Enterprise-Nehemiah plans for redevelopment. "They are really interested. People truly want to be lifted up, and these 300 houses are a good beginning. This development lifts the spirit and soul—it raises self-esteem. That's what it's all about."

Modular Construction Saves Time and Money

A single townhouse design will use economies of scale wherever possible. ENDC board member Lessie Powell strongly believes that limiting the unit to a single design allows for the most efficiently built housing. Modular construction is less expensive and board member Chickie Grayson thinks it also shortens construction time. Because of the easy assembly, a modular home can be ready for occupancy only 8 weeks after delivery to the site. "Another benefit of modular construction," Ms. Powell points out, "is that the enclosed units reduce vandalism, which is common to construction sites, further reducing costs and problems."

Standard features in each unit include gas-forced heat and air-conditioning, gas range, refrigerator, garbage disposal, and ceiling and wall assembly insulation. A brick front was chosen to complement existing local structures; the rear of the townhouses, however, will be covered in aluminum siding to cut costs.

The Penn North and Sandtown-Winchester homes will be marketed to community residents who meet eligibility requirements. ENDC has started working with city officials to establish an effective homeowner selection process. An independent realtor contracted by Enterprise-Nehemiah will market the homes and prescreen applicants for qualification, but community involvement is also part of the marketing strategy. Neighborhood residents have been going door-to-door to tell others about opportunities for homeownership.

Rebuilding the Neighborhood Is the Bigger Goal

Physical redevelopment is only one part of the joint venture's efforts in the Penn North and Sandtown-Winchester neighborhoods. ENDC members believe that long-term progress can only be achieved if social and economic life is stabilized in the neighborhood.

The group's larger goal is to provide better access to education, employment, financial counseling, day care and health care. Efforts are underway to make citizens more aware of city services and also make those services more accessible. In conjunction with the two community associations, ENDC has obtained a pledge from the city of Baltimore to reinforce or rebuild the social foundations of the Penn North and Sandtown-Winchester neighborhoods by increasing the residents' awareness of the city's financial and social services.

The communities are also looking forward to economic revitalization. The Baltimore Economic Development Corporation, a

The Enterprise-Nehemiah Development Corporation is revitalizing Baltimore's Penn North and Sandtown-Winchester communities. This abandoned bakery has been razed to reduce vandalism and drug dealing in the area. In its place, Enterprise-Nehemiah will build some of the 283 new units planned for the communities.

SCHMIDT BAKING

private organization, intends to support business development in the area. Paul Brophy, a member of both the ENDC board and the Enterprise Foundation's board of directors, believes that the State will designate the area as an Enterprise Zone, an action that will further spur investment and employment. In addition, the group is working to acquire tax abatements for homeowners.

Besides expanding homeownership opportunities for low-income people, ENDC strongly believes its efforts will uplift the Penn North and Sandtown-Winchester neighborhoods. Annie Graf, BUILD's representative to the ENDC board, points out, "We are not simply developers. Rather, we are here to rebuild the neighborhood in the truest sense of the word."

The joint venture hopes to create a sense of community. In a first step toward fostering involvement, each person in the community, whether they plan to become homeowners or not, is contributing membership dues to the Penn North and Sandtown-Winchester homeowner/community associations. Community leaders believe that neighborhood commitment will be the key to developing and keeping the new look.

Creative Financing Taps Every Source

Well before the Nehemiah Housing Opportunity Program was announced, BUILD began to line up support and resources for the redevelopment of the Penn North and Sandtown-Winchester communities. BUILD received pledges of nearly $2.2 million for construction loans from local religious institutions in early 1986. The funds can be used for 7 years at no interest with repayment to the religious institutions after that.

With the announcement of the Nehemiah Housing Opportunity Program and the forming of ENDC, additional support was added to meet the requirements for participation in this grant program. Federal, State, city and private organizations are making the following contributions:

- The State of Maryland has issued Mortgage Revenue Bonds (MRBs) to provide $11.2 million in first mortgages, which carry interest rates from 4 to 8 percent, depending on the buyer's income. Paul Brophy, says that "good, cheap first mortgage money from the State of Maryland made the project possible."
- The State's Homeowner Tax Credit program will provide low-income homebuyers in the Penn North and Sandtown-Winchester communities with tax abatements for up to 30 years, totaling nearly $2.3 million.
- The city of Baltimore is devoting $12 million to cover the cost of third mortgages. The city is also funding closing costs, demolition of existing structures, public improvements to the two sites, contingency costs and predevelopment expenses incurred by ENDC. It is also waiving certain fees, codes and site requirements. In addition, the city is covering rezoning costs, site plan engineering and design of the rehabilitated units.
- Help is also coming from the private sector. Baltimore Gas and Electric (BG&E) will donate the replacement and extension of the conduits to the new homes in the Penn North and Sandtown-Winchester areas.
- HUD's grant of $4.2 million, the largest first-round grant in the Nehemiah Housing Opportunity Program, will be used to finance second mortgages of up to $15,000 per unit. With this additional funding from HUD, homeownership opportunities can be extended to families whose incomes are even lower than original guidelines. Now, buyers with incomes as low as $11,000 per year with a good credit history will be eligible to purchase units.

The homes will be priced at $58,500. Of this, the State of Maryland, using MRB funds, will finance $37,500 per unit for the first mortgage; the Federal Government, through the Nehemiah grant, will finance $14,000 for the second mortgage; and the city will finance $6,250 for the third mortgage, plus contribute $4,000 for closing costs. Typically, the buyer's downpayment will be $750, but downpayments may vary according to the buyer's income.

The terms of the first mortgage will vary, depending on the buyer's income and the availability of State funding at the time of mortgage application. The downpayment to the first mortgage is predetermined on a sliding scale, and this note is due in full on resale or when the home is no longer owner-occupied. As long as the buyer owns and occupies the home, no principal or interest will be due on the Nehemiah-financed second mortgage that will be held by HUD. The third mortgage is deferred and nonamortized and is due on sale.

Success Requires Planning

The key to a successful homeownership program for low- and moderate-income buyers lies in "getting organized," says board member Lessie Powell, "and in lining up your construction money early."

Paul Brophy of Enterprise suggests that State agencies offering inexpensive first mortgages, financed through MRBs, can really assist this type of program. Homeownership programs also offer benefits to both potential buyers and local officials, says Brophy, adding, "such projects are rewarding to all involved."

Annie Graf advises, "It's important that any housing that goes in the neighborhood be 'owned' by the neighborhood as a whole."

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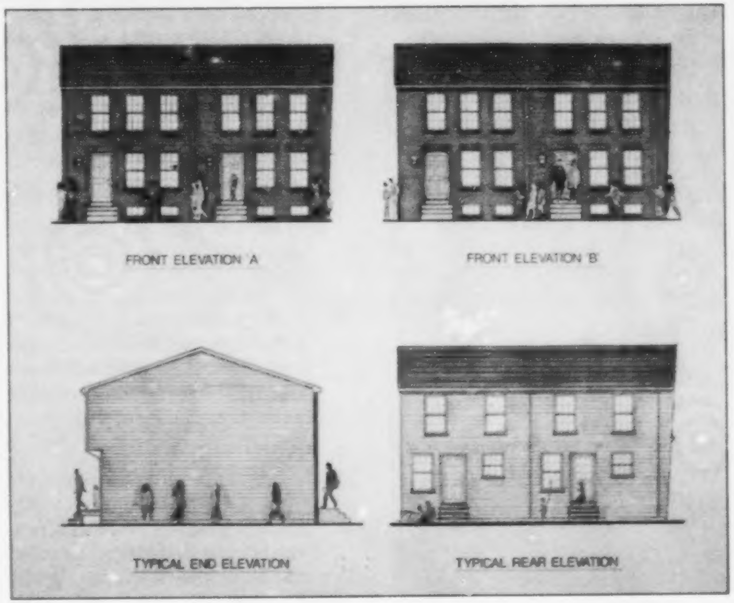
For a brief description of the Nehemiah Housing Opportunity Program requirements, see page 139 in Appendix I.



Modular construction techniques keep costs down and shorten construction time. Standard features include gas heat and air conditioning, gas range, refrigerator and garbage disposal. The brick facade complements existing structures.

Appendixes

Appendix I

HUD Programs That Provide Homeownership Opportunities

Appendix II

Other HUD Programs That Support Homeownership

HUD Programs That Provide Homeownership Opportunities: Eligible Applicants

Programs*	Public Housing Agencies (PHAs)	Indian Housing Authorities (IHAs)	Public Housing or Private Resident Organizations	Public Housing Resident Management Corporations	States or Units of Local Government	Nonprofits
Homeownership Program—Section 5(h)	●	●				
Resident Management Corporation Homeownership Program—Section 21	●	●		●		
Turnkey III Homeownership Opportunities Program	●	●				
Mutual Help Homeownership Opportunities Program		●				
Urban Homesteading Program					●	
HUD-Held/HUD-Owned Properties			●			●
Homeownership Using Community Development Block Grant Funds					●	
Nehemiah Housing Opportunity Program						●

* While many of these programs limit application to specific types of organizations, other groups may play an important role as well. For example, individual residents, resident organizations, resident management corporations, nonprofits, States and units of local government may provide the impetus for a PHA, IHA or other eligible applicant to undertake a homeownership program. In other instances, regulations either permit or require a group other than the applicant to administer the local program. For more detailed information, see the following individual program descriptions.

Appendix I

Many communities have used the following HUD programs, illustrated in the preceding case studies, to provide the properties for low- and moderate-income homeownership.

Public Housing Homeownership—Section 5(h)

Section 5(h) Homeownership Program: Section 5(h) was added to the U.S. Housing Act of 1937 (the Act) in 1974. This section of the law allows Public Housing Agencies and Indian Housing Authorities (hereafter referred to as PHAs) to sell individual units and developments to residents of public housing and allows HUD to continue servicing the debt on the original acquisition, construction or modernization cost. Notwithstanding limitations on requirements of other sections of the Act, the statute gives the Secretary of Housing and Urban Development complete discretion to implement homeownership programs under Section 5(h).

In the absence of formal regulations governing the sale of public housing units under Section 5(h), local sales programs have been approved on a case-by-case basis. PHAs applying for homeownership programs under this authority have received maximum flexibility to design and structure a sales program allowing local economic and other conditions to determine the approaches to be used and the appropriate form of ownership to be offered.

The application for a Section 5(h) Homeownership Program must be submitted by the PHA. However, the impetus for such a program may begin with the residents, who, with the encouragement of the PHA, may submit an application. PHAs are encouraged to work with and involve the residents.

For further information about this program, contact:

Gary Van Buskirk
Office of Public and Indian Housing
U.S. Department of Housing and Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–4233
FTS 458–4233

Public Housing Homeownership Demonstration: In 1985, using the authority contained in Section 5(h), HUD implemented the Public Housing Homeownership Demonstration (PHHD) to: (1) test and document a variety of approaches for assisting and encouraging lower income public housing residents to purchase their units; and (2) provide information on which to base regulations for the Section 5(h) Homeownership Program.

Because of the flexibility allowed by Section 5(h), the demonstration was designed with only four basic requirements:

- Units sold must be in good condition and meet local housing codes.
- Purchasing families must be provided homeownership counseling and training.
- Provision must be put in place to preclude windfall profits for a minimum of 5 years.
- Nonpurchasing residents must not be involuntarily relocated.

PHAs participating in the demonstration have successfully created homeownership programs for their residents, using both single-family and multifamily properties. Based on the experiences of the participating PHAs and the programs they developed for the demonstration, regulations have been prepared for the Section 5(h) Homeownership Program and are being processed for publication.

For further information about this demonstration, contact:

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FTS 458–3061

Resident Management Corporation Homeownership Program—Section 21

The Housing and Community Development Act of 1987 added Section 21 to the U.S. Housing Act of 1937. Under Section 21, a Resident Management Corporation (RMC) may undertake the ownership of a public housing property and resell the individual units to current public housing residents and other low-income families. An RMC is eligible to purchase one or more multifamily properties from a Public Housing Agency or an Indian Housing Authority (hereafter referred to as PHAs) if it meets the following criteria:

- Is established or approved by resident organization(s) or, if none, by a majority of the residents of the public housing development.
- Has an elected board of directors that includes representatives of the resident organization(s).
- Has voting members who are residents of the managed property.
- Has a management contract with the PHA.
- Has demonstrated its capability to manage public housing effectively and efficiently for at least 3 years.
- Is a State-approved, nonprofit corporation.

A notice in the November 3, 1988, *Federal Register* sets forth the issues and elements to be addressed in an application to participate in the Section 21 program. The notice also details other criteria and conditions that must be met in order for the PHA to sell the public housing property as well as the support and resources that can be made available to the RMC and residents.

An application that meets the statutory criteria and conditions may be submitted by either the RMC or the PHA.

For further information on this program, contact:

Gary Van Buskirk
Office of Public and Indian
Housing
U.S. Department of Housing and
Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–4233
FTS 458–4233

Turnkey III Homeownership Opportunity Program

The Turnkey III Homeownership Opportunity Program, introduced in 1968, was the largest homeownership effort undertaken in the Public Housing Program. More than 13,800 units were developed by Public Housing Agencies and Indian Housing Authorities between 1968 and 1983. As of September 30, 1989, approximately 7,576 of these homes had been sold. Many of the Indian Housing Authority units were converted to the Mutual Help Program.

Turnkey III is a lease-purchase program in which homebuyer-residents have the opportunity to purchase their homes after an initial rental period, during which the purchase price is amortized and equity credits are accumulated in two reserve accounts established in their names: the Earned Home Payment Account and the Nonroutine Maintenance Reserve. Portions of the homebuyer-resident's monthly rent are set aside in these accounts as credits for routine and nonroutine maintenance. To the extent that the homebuyer-resident performs routine maintenance and does not require the housing authority to do it, the funds accumulate in these two accounts and are available to apply toward the purchase of the unit.

The price of a unit is based on the development's initial total cost. The price is then amortized over the length of the lease-purchase term (25 to 30 years). Monthly payments are based on a percentage of the family's income—generally 30 percent. The sole stipulation is that the homebuyer-resident continue to demonstrate "homeownership potential" and meet the requirements of the lease-purchase agreement.

Homebuyer-residents may accelerate the purchase of their units any time after an initial 2-year occupancy by obtaining financing in the amount needed to pay off the unamortized balance of the purchase price less the amount accumulated in the two reserve accounts.

Applications for this development program must be submitted by a PHA. Experience gained under this program may also be useful to PHAs and other organizations interested in facilitating homeownership opportunities for lower income households.

For further information on this program, contact:

Gary Van Buskirk
Office of Public and Indian Housing
U.S. Department of Housing and Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–4233
FTS 458–4233

Mutual Help Homeownership Opportunity Program

The Mutual Help Homeownership Opportunity Program has been operated by HUD since 1962. It was created to offer a program of homeownership designed specifically to serve Indians or Indian land.

Mutual Help is a lease-purchase program. An Indian Housing Authority (IHA) leases a home to a prospective homebuyer for a period of up to 25 years. To qualify to participate in the Mutual Help Program, prospective homebuyers generally must be Indians of lower income. Prospective homebuyers are also required to make an initial contribution, equivalent to at least $1,500, in land, cash, labor, materials or equipment. Other than labor, this contribution can be made by the tribe on behalf of the buyer.

During the lease term, the homebuyer makes monthly payments to the housing authority. The payment is based on the buyer's income, and must be at least as much as the housing authority's administrative cost. Any payment that is in excess of the monthly administrative cost is credited to the homebuyer's equity and reserve accounts. Homebuyers also are responsible for utility costs and maintenance.

Homebuyers are considered eligible to purchase the home when their (1) equity account and reserves are sufficient to pay the settlement costs, insurance premiums and a $1,500 maintenance reserve; and (2) income is sufficient to carry all operating costs of the house.

In addition to providing the grant authority to the IHA to fund construction of units and amortization costs, HUD also provides funds to the IHAs for homebuyer counseling, staff training, audits, certain modernization costs and collection losses.

Applications must be submitted by the IHA for funding under this program. However, the concept and approaches to homeownership as incorporated in the Mutual Help program may be adapted to various settings by Public Housing Agencies and other organizations to provide homeownership opportunities to lower income families.

For further information about this program, contact:

Dominic Nessi
Office of Indian Housing
U.S. Department of Housing and Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–1015
FTS 458–1015

Urban Homesteading Program

In the Housing and Community Development Act of 1974 (Section 810), Congress authorized HUD to transfer repossessed federally owned, vacant one-to-four-unit properties to localities for use in HUD-approved urban homesteading programs. Section 810 funds may be used for the acquisition of HUD-held, Federal Housing Administration, U.S. Department of Veterans Affairs, Farmers Home Administration and Resolution Trust Corporation properties. The Section 810 funds cannot be used to cover administrative costs of the local homesteading program, but Community Development Block Grant funds may be used for this purpose.

When homesteaders are selected, households at or below 80 percent of area median income receive special priority. Homesteaders also may not own any residential properties when they are selected. The Local Urban Homesteading Agency (LUHA) assists the homesteader in obtaining rehabilitation financing and monitors compliance over a 5-year period.

The LUHA conditionally conveys property titles to selected homesteaders pending completion of rehabilitation. The property is conveyed at nominal cost, but the homesteader is responsible for the cost of the rehabilitation and must also meet the program's five conditions:

- Homesteaders must agree to repair, maintain and occupy the property for a minimum of 5 consecutive years.
- Properties must meet health and safety standards within 1 year.
- Properties must meet local standards for decent, safe and sanitary housing within 3 years.
- Homesteaders must permit periodic inspections.
- Homesteaders must surrender the property upon material breach of the Homesteader Agreement between the LUHA and the homesteader.

LUHAs operate the program in selected neighborhoods and screen available Federal properties for rehabilitation costs, surrounding neighborhood conditions and bedroom size. State and local governments must also develop plans for the general improvement of the selected neighborhoods through the upgrading of community services and facilities.

At the end of 1989, more than 140 communities were participating in the Urban Homesteading Program. Since its implementation, the program has provided homeownership for 12,300 families.

States and local governments are eligible to apply and sign a Homesteading Participation Agreement with HUD. The State or local government may administer the program or it may designate a public agency or a qualified community organization to be the LUHA.

For further information about this program, contact:

John Garrity
Office of Community Planning
and Development
U.S. Department of Housing and
Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–0324
FTS 458–0324

HUD-Held/HUD-Owned Properties

From time to time, HUD acquires multifamily rental property as the result of a default on a HUD-insured mortgage. Once HUD becomes the mortgagee-in-possession—usually, but not necessarily, pursuant to a court order—a local management agent is retained, and a program for operations, including repairs and renovation, is developed. HUD's primary objective is to dispose of the property at the earliest possible date and at the highest price obtainable in the current market, normally through public offerings.

However, HUD-held multifamily properties may be disposed of in several other ways, depending on local circumstances. For instance, the property can be sold as rental housing to the local housing agency or to a private party.

Another alternative is for HUD to negotiate the sale of a property to a cooperative that will operate it on a nonprofit basis and restrict permanent occupancy of the units to low- and moderate-income co-op members.

When HUD takes over a troubled development, residents are notified of the possibility of conversion to a resident-owned cooperative. Their degree of interest—and their organizational and management skills—are critical to the possibility of ultimately forming a co-op. HUD requires that for conversion to occur, at least 80 percent of the residents must agree to become members; specific provisions protect nonmembers from displacement. Residents pay all of the conversion costs, including training expenses. The purchase price, financing, rental subsidies and mechanisms for continued affordability are worked out on a site-by-site basis.

The concept of a resident-owned cooperative for low- and moderate-income families has potential for replication throughout the country. The concept may also be applied to other types of properties that can be offered to the residents at affordable prices: city-owned properties; Federal Housing Administration, Farmers Home Administration, and U.S. Department of Veterans Affairs foreclosed properties; and Resolution Trust Corporation properties.

For further information about this program, contact:

Frank Malone
Office of Multifamily Housing
 Management
U.S. Department of Housing and
 Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–0216
FTS 458–0216

Homeownership Using Community Development Block Grant Funds

HUD provides support through local and State governments to a wide assortment of homeownership projects that are sponsored by community-based nonprofit organizations. This support is delivered through HUD's Community Development Block Grant (CDBG) program, which is distributed annually to approximately 900 entitlement cities, counties and States. Communities and States may use the CDBG funds for a variety of housing, community development and economic development activities, provided the activities serve lower income families, remove slums and blight or meet other urgent needs. Roughly one-third of all CDBG funds each year goes into housing and housing rehabilitation activities.

For homeownership projects, communities often use nonprofits and other entities to carry out neighborhood revitalization activities. The CDBG program regulations permit certain neighborhood-based and community nonprofits to undertake a broad set of special housing activities using CDBG funds, including downpayment assistance, mortgage subsidies and new construction under limited circumstances. Neighborhood-based and community nonprofits must apply to the units of local governments for the CDBG funds.

Because the CDBG program allows for broad local discretion and initiatives, the local programs that are developed provide some very innovative examples of how public funds can be used to lower the costs of homeownership. Local projects can offer homeownership through cooperatives, condominiums and individual single-family homes; financial assistance can take the form of grants and deferred or low-interest loans.

There are two parts of the CDBG program. One part is for entitlement communities consisting of metropolitan cities and urban counties that are funded annually. The other is for nonentitlement communities (units of local government that are not metropolitan cities or part of an urban county). For the nonentitlement communities, an application must be submitted to the State that distributes grants to the units of local government, except in the case of New York and Hawaii, where grants are made directly by HUD.

For further information on this program, contact:

Don Patch
Office of Block Grant Assistance
U.S. Department of Housing and
 Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–3587
FTS 458–3587

Nehemiah Housing Opportunity Program

In October 1989, HUD Secretary Jack Kemp announced the award of $18.9 million in Nehemiah Housing Opportunity Program grants to 15 nonprofit organizations to be used to develop 1,321 units slated for homeownership. The Nehemiah Housing Opportunity Program (Nehemiah) established by the Housing and Community Development Act of 1987, has several objectives:

- To encourage homeownership by families who could not otherwise afford to own a home.
- To help to rebuild depressed city areas.

- To create sound and attractive neighborhoods.
- To increase employment opportunities for residents of these communities.

Under Nehemiah, HUD is authorized to make grants to nonprofit organizations that can then provide loans to families purchasing substantially rehabilitated homes or homes constructed in accordance with HUD-approved plans. These loans cannot exceed $15,000 per family and are secured by HUD-held second mortgages. Although the loans are interest-free, they are due to HUD should a family sell, lease or transfer the property. However, repayment of the second mortgage can be waived at the discretion of the Secretary of Housing and Urban Development.

While families with incomes up to 115 percent of the area median income are eligible for the second mortgages, local programs are encouraged to target the housing to those families with incomes below 80 percent of the area median income. In addition, the potential buyer must not have owned a home during the 3 years prior to purchasing.

Nehemiah's primary objective is to reduce physical and economic blight in distressed neighborhoods by planting a seed for community redevelopment via homeownership. The homes must be located in communities that meet this criteria and where the median income is 80 percent or less than the area median income. Each grantee under this current round of funding of Nehemiah has submitted evidence that its program, alone or in conjunction with local governments or private entities, will result in a substantial long-term improvement to neighborhood quality and viability.

Nonprofit organizations, either singularly or jointly, are eligible to submit applications for grants.

For further information about this program, contact:

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Office of Insured Single-Family Housing
U.S. Department of Housing and Urban Development
451 Seventh Street SW.
Washington, DC 20410
(202) 708–2720
FTS 458–2720

Appendix II

Other HUD Programs That Support Homeownership

In addition to homeownership programs that provide the physical structures for low- and moderate-income households, HUD offers many other programs that support homeownership. These programs provide direct loans to the homeowners or, through insuring loans made by private lenders, indirectly make financing available for the construction, purchase or rehabilitation of ownership units. Other HUD programs assist in the development of affordable housing through the encouragement of regulatory reform, elimination of red tape and the use of innovative construction techniques to reduce the cost of housing.

The following programs are currently available to support affordable homeownership opportunities:

Rehabilitation Loans—Section 312

Section 312 offers direct Federal loans to property owners in federally assisted Community Development Block Grant and Urban Homesteading areas.

The loans finance rehabilitation (including insulation and weatherization) of single-family and multifamily residential, mixed use and nonresidential properties.

The amount of the loan may not exceed $33,500 per unit or $100,000 for nonresidential properties. Loans are repayable over a period of 20 years at interest rates of 3 percent for lower income homeowners or at Treasury bond rates for both multifamily properties and moderate-income homeowners.

Local governments originate the loans and monitor any housing rehabilitation. HUD approval is required in cities without local loan approval authority.

One- to Four-Family Home Mortgage Insurance—Section 203

Through this program, HUD insures loans made by private financial institutions for up to 97 percent of the property value and for terms of up to 30 years.

The loan can be used to pay for construction and financing and can be used to finance homes in both urban and rural areas (except farm homes). HUD- and FHA-insured homeowners threatened with foreclosure due to circumstances beyond their control, such as job loss, death or illness in the family, may apply to have the mortgage assigned to HUD. If HUD accepts the assignment, it takes over the mortgage and adjusts the payments until the homeowners can resume their financial obligations.

Anyone able to meet the cash investment, the mortgage payments and credit requirements is eligible for the program.

Rehabilitation Mortgage Insurance—Section 203(k)

Under this program, HUD insures rehabilitation loans to (1) finance rehabilitation of an existing property, (2) finance rehabilitation and refinancing of the outstanding indebtedness of a property, or (3) finance purchase and rehabilitation of a property.

An eligible rehabilitation loan must involve a principal obligation not exceeding 97 percent of the property value and for terms of up to 30 years.

Anyone able to meet the cash investment and the mortgage payments is eligible for the program.

Homeownership Assistance for Low- and Moderate-Income Families—Section 221(d)(2)

This program provides mortgage insurance to increase homeownership opportunities for low- and moderate-income families, especially those displaced by urban renewal. The program insures lenders against loss on mortgage loans that finance the purchase, construction or rehabilitation of low-cost one- to four-family housing.

Maximum insurable loans for an owner-occupant are $31,000 for a single-family home (up to $36,000 in high-cost areas). For a larger family (five or more persons), the limit is $36,000 (up to $42,000 in high-cost areas). Higher mortgage limits apply to two- to four-family housing.

Anyone may apply for the program; displaced households qualify for special terms.

Housing in Declining Neighborhoods—Section 223(e)

Through this program, HUD insures lenders against loss on mortgage loans that finance the purchase, rehabilitation or construction of housing in older, declining, but still viable urban areas where conditions are such that normal requirements for mortgage insurance cannot be met. The property must be in a reasonably viable neighborhood and present an acceptable risk under the mortgage insurance rules.

The terms of the loans vary according to the HUD/FHA program under which the mortgage is insured. HUD determines if a development should be insured under Section 223(e) and become an obligation of the Special Risk Insurance Fund. This fund is not a separate program—it supplements other HUD mortgage insurance programs.

Eligible applicants include owners who are ineligible for FHA mortgage insurance because their property is located in an older, declining urban area.

Special Credit Risks—Section 237

This program insures lenders against loss on home mortgage loans to low- and moderate-income families that are marginal credit risks. HUD is also authorized to provide budget, debt-management and related counseling services to these families when needed. The counseling is performed by local HUD-approved organizations. Applicants may seek credit assistance under most FHA home mortgage insurance programs. The insured mortgage limit is $18,000 ($21,000 in high-cost areas).

Eligibility is limited to low- and moderate-income families who show an ability to manage their financial and other affairs successfully if given budget, debt-management and related counseling.

Condominium Housing—Section 234

HUD insures mortgages made by private lending institutions for the purchase of individual family units in multifamily housing developments under Section 234(c). Sponsors may also obtain FHA-insured mortgages to finance the construction or rehabilitation of housing developments they intend to sell as condominium units under Section 234(d).

To qualify, a development must contain at least four dwelling units in detached, semidetached, row, walkup or elevator structures. Any qualified nonprofit or for-profit sponsor may apply for a blanket mortgage covering the development, after conferring with the local HUD/FHA Field Office. All creditworthy persons may apply.

Cooperative Housing—Section 213

This program insures mortgages made by private lending institutions on cooperative housing developments of five or more units that will be occupied by members of nonprofit cooperative housing corporations.

Financing is available for:

- New construction, rehabilitation, acquisition, improvement or repair of a development already owned, as well as resale of individual memberships.
- Construction of developments composed of individual family dwellings to be bought by individual members with separate insured mortgages.
- Construction or rehabilitation of developments the owners intend to sell to nonprofit cooperatives.

Those eligible to apply include (1) nonprofit corporations or trusts or beneficiaries of the trust; and (2) qualified sponsors who intend to sell to a nonprofit corporation or trust.

Manufactured Homes (Title I)

Through Title I, HUD insures loans to finance the purchase of manufactured homes and lots for the homes. The loans, made by private lending institutions, are a maximum of $40,500 for a manufactured home, $54,000 for a manufactured home and a suitably developed lot, and $13,500 for a developed lot. The maximums may be increased up to 50 percent in designated high-cost areas. The terms vary from 15 to 25 years, depending on the type of loan.

Anyone able to make the cash investment and the mortgage payments is eligible to apply.

Mortgage and Major Home Improvement Loan Insurance for Urban Renewal Areas—Section 220

This program insures new or rehabilitated homes or multifamily structures located in urban renewal areas and areas with concentrated code enforcement and neighborhood development programs. HUD insures supplemental loans to finance improvements that will enhance and preserve salvageable homes and apartments in these areas.

Investors, builders, developers, individual homeowners and apartment owners are eligible to apply.

Graduated Payment Mortgages—Section 245

Through this program, HUD insures mortgages for households that expect their incomes to rise substantially. Graduated payment mortgages allow homeowners to make smaller monthly payments initially and then gradually increase the size of the payments. Five different plans are available varying in length and rate of increase.

Larger than usual downpayments are required to prevent the loan from exceeding the statutory loan-to-value ratios. In all other ways, the graduated payment mortgage is subject to the rules governing ordinary HUD-insured home loans. All FHA-approved lenders may make graduated payment mortgages.

Eligible applicants include all creditworthy persons with reasonable expectations that their income will increase.

Adjustable Rate Mortgages (ARMs)

Under this HUD-insured mortgage, the interest rate and monthly payment may change during the life of the loan. The initial interest rate, discount points and margin are negotiable between the buyer and lender. The 1-year Treasury Constant Maturities Index is used to determine the interest rate changes. One percentage point is the maximum amount the interest may increase or decrease in any 1 year. Over the life of the loan, the maximum interest rate change is 5 percentage points from the initial rate of the mortgage.

Lenders are required to disclose the nature of the ARM loan at the time the borrower applies for the loan. In addition, borrowers must be informed at least 30 days in advance of any adjustment to the monthly payment.

All FHA-approved lenders may make adjustable rate mortgages. Creditworthy applicants who will be owner-occupants may qualify for ARMs.

Joint Venture for Affordable Housing (JVAH)

The goal of JVAH is affordable homeownership and rental for low- and moderate-income families. By involving builders, developers, local governments and others connected with the housing industry who are concerned with housing affordability, JVAH creates affordable housing opportunities through regulatory reform, elimination of red tape and the use of innovative construction and land planning techniques.

The program focuses on controllable factors contributing to housing costs (including deregulation and building code modifications). It enlists community organizations to work for housing affordability, helping them to launch their own affordable housing campaigns and functions as a clearinghouse for resource materials and ideas.

Eligible participants include buyers—especially first-time homebuyers—who are able to meet the cash investment, the mortgage payments and credit underwriting requirements.

Counseling for Homebuyers, Homeowners and Residents

HUD is authorized to counsel homebuyers, homeowners and renters involved in HUD programs. Services are provided by HUD-approved counseling agencies at no cost to individuals and families who participate in HUD-sponsored programs. HUD approves agencies and private and public organizations that have competence, knowledge and experience in housing counseling and departmental programs.

Housing counseling grants, when available, are awarded on a competitive basis to HUD-approved counseling agencies as partial reimbursement for costs. Counseling consists of advising and assisting with budgeting, money management and buying and maintaining a home. It includes referrals for financial assistance, food, medical care, family guidance and job training and placement. Counseling services help homeowners and renters improve their housing conditions and meet their responsibilities.

Homebuyers, homeowners and renters under HUD programs are eligible for counseling. Private and public nonprofit agencies may apply for HUD approval to provide housing counseling services.

Mortgage Insurance Program on Indian Reservations—Section 248

HUD insures mortgages that Indian families obtain from private lenders to purchase houses on reservation land. Prior to the Section 248 program, it was nearly impossible to obtain a mortgage on a reservation because of the restrictions on land ownership. Under this program, the land is conveyed to the buyer through a lease, so that Indian ownership is retained. In the event of foreclosure, a lender does not need to show that the land is free and clear in order to receive FHA insurance proceeds.

In order to use this program, the tribe must adopt foreclosure and eviction proceedings and promise to enforce them. The tribe must also pass a law establishing the FHA mortgage as first lien on the property when a tribal court has jurisdiction. If the tribal court does not handle foreclosure/eviction cases, or if it wishes to defer to State law, then the State or Federal court will have jurisdiction.

Additional special procedures apply to the Section 248 program:

- In cases where there have been few comparable sales in the area, the value of the home will be determined by its materials and construction.
- A special lease form and mortgage rider must be used.
- The tribe must approve the buyer if the home is sold or may find a renter if no family qualifies to purchase it.

When the tribe has satisfied the program requirements, any Indian family able to meet the cash investment, mortgage payments and credit requirements is eligible for the program.

For information on these HUD programs, contact your nearest HUD Regional or Field Office.

Notes

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